







# **BANKS AND PEOPLE.**

**By**

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## PREFACE.

AS a general principle I am opposed to the Preface. I do not believe in telling people what I propose to say; I prefer to say it. But there are cases where an introduction proves a useful and illuminating adjunct to a book. In the present instance it serves a two-fold mission. It enables me to indicate briefly the object with which this work has been undertaken, and to acknowledge certain sources of information that have been drawn upon, and at the same time expressing my obligations to those whose labours and experiences in the same field have aided in the compilation of these pages.

My object, then, has been to present as clear, concise and accurate an account of the People's Banks movement throughout Europe since the days of the inauguration in Germany, during the early fifties in the last century—when those two redoubtable reformers, Schulze-Delitzsch and Raiffeisen, first started their daring crusade—up to the present adoption of similar institutions in

the United Kingdom. The lesson that this history teaches—a history covering a period less than man's allotted span—is both suggestive and great. It is the story of a noble struggle of earnest, energetic and high-purposed men against the petty meddlings and tyrannies of pragmatistical officialdom, and it shows what wonders for the democracy may be achieved by concerted action, even in the face of apparently insuperable impediments. It proves also the advantages of private enterprise over bureaucratic control. And it is a lasting monument to the fact of how struggling and persecuted peoples may lift themselves by dint of co-operation and self-help out of the slough of poverty and misery to a higher moral, political, financial and social level. It embodies teachings which, if rightly studied, the British people might well take to heart and apply to their own case of the masses of suffering citizens in our midst.

The channels through which I have been enabled to arrive at a full survey of this vitally fascinating movement have been manifold and culled from various literatures, official documents, Blue Books of many kinds, and converse with

authorities alike, all of whom are duly acknowledged in the text.

But there are two authorities whom I desire particularly to name. The first is that of Mr. Egmont Hake. To the reading of his several works (some of which were written in conjunction with Mr. O. E. Wesslau), to his public speeches, and to much private talk with him, I owe not a little that is embodied in this work. Mr. Egmont Hake was the first to advocate the introduction of People's Banks into this country. His address to the Institute of Bankers some years ago on this subject attracted widespread attention, and led to a fierce controversy in the columns of "The Times," in which many of the most illustrious public men, chiefly economists and financiers, took part. Mr. Egmont Hake, while recommending People's Banks for this country, had been careful to accentuate and enforce the point that such institutions, if established in our midst, should not be slavish imitations of the German Associations, but so modified and improved as to adapt themselves to the conditions ruling in the United Kingdom. He particularly emphasised the

importance of engrafting upon them the best features of the old Scotch Banks and the *banquier* system in France, both of which have proved of such great prosperity-producing power. It was this that led to the remarkable controversy in "The Times." But though attacked from many sides, the advocate won his case. And he doubly won it some years later, when, at a full meeting at St. James's Hall, bankers from all parts of the country came to hear him, and passed a resolution, not only endorsing his apparently daring views, but welcoming his proposals for the introduction of the new system.

It is these and other facts and experiences that have induced me, like many others—among whom may be numbered the most distinguished economists of France, Italy and Germany—to regard Mr. Egmont Hake as among the greatest authorities on Banking and other economic subjects of the day. And it is for this reason that I have thought it right to set forth in these pages the views on People's Banks which he has so sturdily and steadfastly championed.

To my friend, Mr. W. Walter Crotch, I am also greatly indebted for much valuable help and

advice in the preparation of this book. Since the day when he commenced a personal investigation of the People's Banks of Germany, Italy and France, Mr. Crotch has been a source of continuous information and assistance to me in all my efforts. I am indeed uttering no idle prophecy when I predict that the result of his labours and research will have no inconsiderable influence on future legislation. Like Mr. Egmont Hake, he approached this subject with an entirely open mind; like him, also, he is resolutely opposed to the adoption of either one or other of the four or five popular systems in their entirety to this country. And there the similarity almost ceases. For beyond the definite conviction that People's Banks present a great and potent lever for the alleviation of social miseries, Mr. Crotch shares few of Mr. Egmont Hake's conclusions. Each would strive in his own industrious and enthusiastic way to apply the experiences of the Continent to our own land. Each would employ his separate method of application; but each is agreed that however diverse the roads we tread, they lead to the same ultimate and triumphant goal. Beyond this they are agreed on the facts

as to the wonderful story of economic success and increasing prosperity which the People's Banks abroad afford.

This work may in a sense be described as a sequel to "The Moneylender Unmasked," in which the evils of usury were so ruthlessly laid bare as to produce a Government enquiry and the Act of Parliament regulating the practices of moneylenders, and to evoke a general demand on the part of the public for the initiation of a constructive reform movement.

It is to be hoped that the outcome of the present publication will be the accomplishment of practical and serviceable ends in the latter direction, including the increased popularity of and confidence in well-organised People's Banking institutions.

T. F.

1, CHEAPSIDE, E.C.

*September, 1911.*

# BANKS AND PEOPLE.

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## CHAPTER I.

### THE NEGLECT OF BANKING SCIENCE.

**W**HY is the science of Banking so widely ignored?

The elaborate researches, the multitudes of prejudiced preconceptions, the whole array of subtle and ingenious devices, with their strange confusion of cause and effect, suggest that an immensity of labour and the display of much futile inventiveness might have been spared, had the workers of so many generations, instead of drafting their methods to legislative restrictions, delved deeper and searched out the effect produced by legislation on the development of Banking and Credit. Of course it falls to the lot of few to study the science of Government, to diagnose the economic and sociological effects of legislative enactments and to expose the fallacies they too frequently body forth. The Statute Books of the world are labyrinths in which even the most wary may lose themselves. What may appear to point the path to the citizen's welfare



and happiness is often the finger post on the road to economic disaster. Indeed, experience shows that to those not deeply versed in exact Political Economy and Sociology, many an enactment appears to bring about beneficent results while in reality it is nothing more than an instrument to increase existing evils or to lay the foundation of new and unforeseen ones. Whole hosts of examples can be cited, drawn from the history of the past and the present day. But in no department have the errors into which the Parliaments of the world have fallen been more glaring, when exposed, than in that of Banking and Credit. This is not surprising, and in some sense, when analysed, the many conflexions and mistakes committed are pardonable. But, since the history of Banking and Credit affords such an illuminating guide for the avoidance of previous mistakes; since the searchlight of truth by certain economists has been so vividly turned on to the weak points of ours and other systems, one cannot resist the temptation to say that Britons, if they shut their eyes to the warnings of the past and the teachings of the present, will show themselves to the world as unworthy of their steel. It is a

mere truism to say that it is part and parcel of the Zeit Geist, or spirit of the time, in our own country, to regard with envy, hatred and even malice the great advances made by foreigners. Once it was not so; to-day it is indisputable. To those, however, who think and observe, it is often abundantly clear that the causes in many cases of alien success and our own failure are traceable to our own apathy, indifference, and inactivity. There are many remarkable movements proceeding abroad of which we take no heed. Only when they reach a point of triumph do we wake up and realize what wonders have been achieved. And when we have awakened to a sense of the facts it is often too late; if not too late we are consigned to play the part of imitators instead of that of initiators.

It would be well to look into this matter and see whether, by the exercise of a little self-criticism, we can not mend our ways. And this is especially so in those most vital departments of human activity—Banking and Credit. While we have been sleeping and are still dozing in a kind of cat-sleep, great and notable movements have been going on abroad in the direction of

financial facilities and economic freedom for the workers among the poor and the oppressed. The sweater, the usurer, the middle-man are being gradually but surely driven out and compelled to seek more productive and less pernicious callings. The struggling working classes, whose lot among ourselves we so much deplore, are being lifted out of their Slough of Despond into positions more worthy of their courage, energy and zeal. The spirit of thrift is on the up-grade. Whole masses of men and women, until recent years the victims of financial parasites or the slaves of predatory and pragmatistical hordes, are fast becoming, and in many instances have already become, holders of, at any rate, a sufficient amount of capital with which to defend themselves against the inroads of their quondam persecutors and to enjoy a quatum of financial freedom. All this has been achieved while we have been paddling on with our antiquated notions, hugging our prejudices, and whining over the social and economic evils, anomalies and inequalities that face us daily.

And yet curiously enough this good work in the direction of the social, mental and moral eleva-

tion of the least privileged classes in the States of Europe has had its origin and its inspirations in our own land. In a word, it has been inspired by some of England's greatest thinkers and sturdiest reformers. The foreign champions of the poor and struggling who have crystallized our doctrines and theories into workable practice are the offsprings of our own neglected thinkers through generations up to this very day. More than that. Foreign critics of our economic system—and especially the Germans—have twitted us with not being able to see and understand the truths that have been and are being thrust right under our nose. And the time will come presently when certain of these truths—not yet recognised and applied by our short-sighted selves—will be zealously taken up by our neighbours and given that shape and substance which it is easily within our power to give them in our own land.

Then, too, we cannot refrain from asking, How comes it that in this age of almost miraculous advancement in all the departments of human activity—invention, discovery, research—wherein no man sneers at attempts on the part of

his fellow citizen to achieve what seems, and has seemed, the impossible, wherein Nature is being vanquished as she has never been vanquished before, wherein space and time are fast being minimised to vanishing point, how comes it that the forces of Banking and Credit, more vital than any other, since they represent the dynamo which sets in motion almost every human enterprise, should be so strangely neglected? How is it that, while we have shed our prejudices regarding so many institutions, laws, methods, customs, we still fondly cling to perhaps the most disastrous and evil-working prejudice of all—the prejudice against the freer extension of our Banking System? Yet it is so. For all intents and purposes, in this important matter of credit-supply, our banking stands as it did two centuries ago. In other words, we are still the dutiful pupils of our far-off ancestors, and the slavish perpetuators of a system which had not got much beyond the child-like view that a Bank was a kind of store-house for coin.

All monopoly Banks have been based on an exaggerated idea of the value of security, even to the infantile notion that a certain quantity of

gold should represent the same quantity of gold! The consequence has invariably been that they themselves, and those institutions modelled upon them, have contributed next to nothing in the way of supply of capital and credit to those who need most for the purpose of production, but on the contrary have and do still cater for the rich and encourage consumption.

The effect of Bank monopoly in our own country, as already visible in the restrictions laid down in Sir Robert Peel's Bank Charter Act of 1844, are well worth a careful consideration. This statute has called forth the adverse criticism of some of the most distinguished thinkers in the economic and the financial world, but in all our reading on the subject we have not encountered a more close and searching exposure of the wrongs inflicted upon the community than in the works of two writers—Mr. Egmont Hake and Mr. O. E. Wesslau—who have practically dedicated their lives to the subject of Bank reform. • What these economists point out—and there is no denying the justice and truth of their statements—amounts practically to this: The leading feature of the Bank Charter Act is to give the Bank of England

the monopoly of note-issuing. It did not deprive those country Banks which in 1844 had an established note-circulation. But it bound them down not to increase their note-circulation and prohibited every Bank or firm from issuing notes. At the same time the note-issuing of the Bank of England was divided into two classes, though the same form of some notes is used for both, namely, the fiduciary notes and those issued against gold deposits. The former may not exceed £14,000,000—the amount of the Debt of the State to the Bank—while the latter may be issued to any amount provided gold is deposited in a corresponding amount in the Bank.

In view of the truth that notes issued against deposits of gold are simply gold warrants, the fact remains that the note-circulation of the country is to-day less than it was in 1844, when the business of the country was about one-sixth of what it is now; which shows how drastic were the measures which Sir Robert Peel took to protect the stability of the “currency.” One of the arbitrary, motiveless regulations of the Bank Act is the prohibition of notes in the country under £5. Consequently the working classes and the

wage-paying industries are precluded from using notes. This wonderful enactment at once raises, or ought to raise, the questions: If notes are harmful, why allow them at all? If they are useful, why not allow the working classes to benefit by them? The reply must be left to the defenders of the Bank Act, if any there be.

The effects of such thoughtless, haphazard regulations on trade and industry are very clearly set forth. Such Banks as issued notes before 1844, and in a few cases continue to issue them now, finding their development in this direction completely shut off by the limitations of their issue, and that their markets were unable to absorb even the permitted amount of issue in the shape of notes of such large amounts as £5 and £10, had with the view to development only one course open to them, namely, to become Deposit Banks. All the large and small Banks started after 1844 are Deposit Banks. Consequently it is correct to say that all English Banks—with the exception of small co-operative establishments and Friends of Labour Aid Societies and pawn-brokers—are Deposit Banks.

To understand the effect of this state of things,



it should be known that all banking may be classed under the two headings of Deposit Banking and Distributing Banking.

The former consists in collecting capital wherever it may be found and making it fructify as much as possible; the latter consists in distributing capital where it is most needed and among people who can best use it and are most willing to pay for its use. All Deposit Banks naturally do some distributing business, and all Distributing Banks do some deposit business. But whether a Bank is to be classed as a Deposit Bank or a Distributing Bank depends on whether it makes the deposits, or distributing, its main business and the chief source of its profits.

All English Banks are Deposit Banks, because to obtain deposits is their first care and the indispensable condition of profit. As to the employment of the collected capital, the Director's duty towards the depositors and towards the shareholders, if any, is to consider safe investment in the first place. Whether the capital is employed in the Bank's market, or outside it; what use it is put to when invested; whether those who use it are customers, or producers, etc.;

are quite secondary considerations to the manager of the ordinary Deposit Bank. It is his duty to look to security in the first place, and he may, if he choose, disregard all other considerations.

The impeachment of Sir Robert Peel's legislation in regard to our Banking System in 1844, and his abolition of the free Scotch system by those who have diagnosed and dissected the maleficent influence of Bank monopoly reads like a revelation. All of us who have scanned closely the ponderous tomes upon the subject of note-issuing, have observed into what a tangle most of the writers have involved themselves. Even Adam Smith mixed up credit with currency and currency with credit. He committed the fallacy of supposing that the prosperity of a country depended upon the circulation of its money or currency. That of course was pardonable from the point of view of his surroundings, and the age in which he lived. But his axiom, in face of the modern development of modern credit, as exemplified by the vast transactions in the City of London without resort to coin, becomes an absurdity. A very striking example of how coin may be dispensed with is

given by Mr. Egmont Hake, who has made an exhaustive study of the Banking systems of Europe. He says:

“At the time when the old Bank of Hamburg was founded, the Sovereigns of surrounding nations, including a host of princes of neighbouring nations, reserving for themselves a strict monopoly of coinage, under the pretext of keeping it up to its standard, were much given to base coinage. The Hamburg merchants feared that if their new Bank were to coin full-weighted silver pieces, the princes would all counterfeit them in base alloy and thus cause them much annoyance. They therefore resolved that the new value-measurer, the Mark Banco, which they introduced at the time, should not be coined at all. The name was simply recognised as meaning a certain quantity of fine silver. Deposits were received in silver and gold coins of all nations; all descriptions, all alloys, as well as gold and silver plate and ingots. All was valued in Mark Banco and credited in that imaginary coin to the depositors’ account. The books of the Bank were kept and all transactions were carried on in Mark Banco. Drafts on the Bank were credited to the bearer,

“who, in his turn, could draw on the Bank.  
“When a coin happened to be actually required  
“from the Bank, it was paid out in silver or in  
“such coin as was demanded, so far as the Bank  
“had stock of it. The silver or promiscuous coin  
“paid out was calculated in Mark Banco, the  
“latter according to its weight and alloy. In  
“spite of its theoretical nature, the Mark Banco  
“was the value-measurer for centuries in all the  
“countries of the north where the Hanseatic  
“League had its business ramifications, as well as  
“the general international value-measurer; and,  
“thanks to the impossibility of debasing it, it  
“proved of immense use to commerce in general.  
“Had Prince Bismarck, instead of destroying the  
“old Bank at Hamburg, profited by the teachings  
“it afforded he would never have established such  
“a monopoly Bank as that of the Imperial Bank  
“of Germany, and would thus have left one  
“monument the less to bear witness to his  
“incredible want of insight into Political  
“Economy.”

And this one fallacy of Adam Smith's committing has led to the construction of whole libraries of error. John Stuart Mill even is a

victim of its tyranny, and like many another has helped to perpetuate this now palpable untruth. Bagehot was one of the few economists who had an inkling that some great truth lay hidden in the labyrinth of this stirring controversy as to why the Scotch note-issuing system should be so secure and profit-producing and the English note-issuing system should inflict failure and ruin on the bankers and the people. In a moment of enthusiasm he prophesied in one of his books that one day a man would arise and, at a flash, would wrest the secret from oblivion. There are those who hold that that secret has been plucked from the long darkness of the ages, and they tell us that it hangs on the old story of individual liberty and government compulsion—of course a purely controversial and debatable finding, although we are bound to say that the theory seems alike simple and scientific. It is fully set forth in two books\* which have met with more recognition abroad by foreign translators and commentators than they have by ourselves at home, and which it would be well for those who admire clear

\* "Free Trade in Capital" } By A. Egmont Hake and  
"The Coming Individualism" } O. E. Wesslau.

thinking and painstaking research to peruse for themselves.

The authors of these works show how Sir Robert Peel missed his chance of conferring prosperity upon England and Scotland alike, when he framed his famous Bank Charter Act. It was natural, perhaps, for human progress is slow and the light comes to few; but he did not see that the bank-note might be either a healthy, useful, wealth-producing credit instrument, causing none of the evil consequences of an increasing quantity of circulating coin, and yet doing all the good work that cheques can do; or a mischievous piece of paper-money with none of the attributes of a good credit-instrument, but bound to produce all the pernicious effects of imported coin without the advantages of increased capital. He did not understand, our authors contend, that the usefulness of a credit-instrument is destroyed in exact proportion as it is subjected to State control, and that supervised notes do not affect the market for the better in the way credit-instruments do, for the simple reason that the facility with which they circulate under Government control outside their natural markets, renders them to all intents

and purposes coin. He did not see that notes, thus competing with coin, call forth none of the healthy and useful banking methods which free credit-instruments compel, but would simply expel from the country a quantity of gold exactly corresponding with their own aggregate. Though it is plain to us now, he does not seem to have perceived that if the media of exchange are to be increased in a country, it is absurd to attempt their increase by the introduction of one which compels another in exact proportion to its own quantity. In short, he did not see the totally different nature of free notes and State-supervised notes.

Be that as it may, Great Britain in 1844 afforded striking illustrations of these two diametrically opposed bank-notes, namely, those circulating in Scotland and those in England. Neither of them were extreme types of their kind, because the one was not absolutely free, and the other was imperfectly controlled. They, however, tended towards the production of opposite results. The explanation, or rather the contention, is that when a Government begins to interfere with a medium of exchange, it loses at once something

of its effectiveness and usefulness, in proof of which we are invited to imagine the effect which would be produced were Government gradually to extend its supervision of cheques.

A certain amount of supervision can take place without conferring a coin-nature on a credit-instrument. But when Government interference reaches a certain point, that at which the credit-instrument begins to circulate outside its own market, it has lost its nature as a credit-instrument and has become coin. Now, just before the Bank Act of 1844, though State interference with the notes in Scotland had reduced their usefulness, that point had not been reached at which it gives them a coin-nature or makes them paper-money; while in England, on the other hand, State interference with note-issuing had reached that fatal point, and the notes of the private Banks, as well as those of the Bank of England, were doing all the mischief of paper-money and none of the good of credit-instruments.

The results of course were different. While in England periods of over-issue and panic succeeded each other, and bank failures took place in alarming numbers, Scotland steadily progressed,



bank failures were scarcely heard of, and whatever financial disturbance that country experienced was only the reaction from England. While now it is easily seen that under such circumstances things could not have been otherwise, it is surprising to find that the different effects of note-issuing in Scotland and in England form the inexplicable puzzle they do to our economists. John Stuart Mill, and others, could explain to a certain extent the good economic effect of freedom in Scotland, and, on logical grounds, favoured such freedom, but, on the ground of experience, they condemned free note-issuing in England; and Mill, as we have seen, dismisses the whole subject with the somewhat farcical conclusion<sup>t</sup> that free note-issuing is very good North of the Tweed but very bad South of it.

The error of course was caused by taking for granted that note-issuing was actually free in England, while in reality Government interference had destroyed the usefulness of the system. In England several legal formalities were required to start a note-issuing Bank: a special charter was necessary, the amounts of the notes were regulated by law, certain clauses in their tenor were for-

bidden, and so on. These regulations in themselves were more than sufficient to give the notes a coin-prestige.

Even if these legal stipulations had not existed, it would have been absurd to say that note-issuing was ever free in this country after the establishment of the Bank of England monopoly. It is a well-known fact that the financial system of a country takes its key-note from the centre, and in the English centre monopoly reigned supreme. The territory of sixty miles radius round the Bank of England is, geographically speaking, insignificant, but from a financial point of view it was one of the most important in the world. Here, where healthy issuing banking should have had, not its market, but its origin, its supply of capital, its encouragement, and guidance for its extension, private note-issuing was entirely forbidden as a local business, and consequently out of the question as an enterprise in distant places for the investment of surplus capital. Issuing methods fell into oblivion, and the word, "Banking," meant, in the City, deposit banking. Nothing was more natural than that the Provincial Banks should adopt the views and

follow the example of the big London Banks, if for no other reason than the advantage of working in harmony with them, and of leaning upon them.

The Provincial Banks, therefore, tended to develop only as Deposit Banks, and when their notes, in face of the coin-prestige which Government interference had given them and the constant demand for coin or notes, circulated to a considerable extent without much effort on the part of the bankers, these never exerted themselves to study the true methods of note-issuing, and naturally concentrated their attention on the development of their deposit business. It is contended that, had there been a total absence of Government interference, note-issuing would have become the leading feature of banking in England as it was in Scotland, and that competition between the bankers would have compelled them to adopt the methods without which free note-issuing cannot succeed, and which render banking such a powerful lever for the economic and social elevation of a nation, as we shall presently show.

Sir Robert Peel, therefore, had two different ways in which to accomplish his great object. He

might have untied the Gordian knot without cutting it. To forbid the further issue of a single note by private Banks, as he did, was one way of damming up the deluge of paper-money. But there was another more effective way still, namely, to deprive the notes of all power of evil, and to confer upon them immense power of good. By withdrawing any kind of State interference with banking and thus leaving it entirely free, he would at one stroke have deprived the English notes of their mischievous coin-nature, and transformed them into healthy and useful credit-instruments; he would have achieved the object he aimed at in a far more radical way than he did, namely, the re-establishment of a more natural value of coin, and prices more favourable to production and export; he would have done this without inflicting on the British nation the prohibition of the only mediums of exchange which for our circumstances are suitable to the productive trades, without compelling a great importation of coin for each small development in business, without preventing co-operation between Capital and Labour by obstructing Free Trade in Credit and Capital.

When, for the sake of uniformity, it was resolved to extend the chief clauses of the Bank Act to Scotland, it might have been expected that it would dawn on Peel and his colleagues that freedom had in that country accomplished what he proposed to accomplish in England. He would have thus avoided a series of barbarous, arbitrary, and illogical prohibitions and limitations, the evil consequences of which were bound to affect the country, the Empire, and the whole world.

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## CHAPTER II.

## THE BEST BANKING SYSTEMS IN THE WORLD.

**W**E have so far endeavoured to make clear how impossible a general industrial and commercial activity must remain so long as our one-third deposit system is upheld and a healthy distributive system is forbidden, how the separation of capital from labour inflicts an incalculable injury upon the community, involving the destruction of our capital abroad and at home. Obviously, in the face of such an obstructive and destructive system anything like a network of People's Banks, in the sense of credit and capital providers for the purposes of a production commensurate with and justified by the resources of these islands and the Empire at large, is therefore forcibly rendered out of the question.

The small successes in the direction of founding People's Banks in this country and the marked success they have achieved abroad are the results of the personal initiative of fearless reformers backed by the allied forces of earnest,

ambitious, hard-working men and women among the working classes.

Scotland offers the finest example in the world's history of how a people may pass, as if by magic, from a state of poverty, misery and all forms of industrial, commercial and financial struggle (in some remoter parts amounting almost to a depth of barbarism) to one of the most flourishing and prosperous nations in Europe. And this rapid and wondrous transformation was due to a significant change in one department alone of its economic system. The Bank Charter lapsed in the early years of the eighteenth century, namely, in 1716, and the supply of capital and credit became free. How the bankers took advantage of their new position is well attested by historians and economists, and by few more clearly than Dunning Macleod. All such authorities and eye-witnesses of the working of these unhampered banks vie with each other in the recognition of their great utility, their exceptional immunity from panics, ruin or loss, and their unequalled prosperity-producing power. The above-named historian, alluding to the economic effects produced by the small notes in Scotland

before the Bank of England monopoly swept them away, likens their beneficial effects to those of the fertilizing water of the Nile.

Mr. Wolff makes some reference to the value of the Cash Credit system prevailing in Scotland, but holds that it has nothing that is co-operative about it, and declares that in its home it has never become popular in the sense of democratising credit. He describes it as a middle-class institution intended not for poor people but for rising farmers and traders. "It does not dive down deep enough to be of use to poor people. The majority of Cash Credits granted are for sums of from £200 upwards to £500. The figure rises to £2,000 and probably beyond. It has never, as far as I can learn, descended below £50."

But surely this writer is ignoring the fact that this, as he calls it, middle-class characteristic which limits the advancing power of the Scotch bankers to thriving traders and leaves the poor and struggling aspirant out in the cold is clearly due to the abolition of the small free notes which proved so safe and prosperity-producing, and, indeed, gave birth in the early years of the eighteenth century to the very Cash Credit system



under discussion! While the Scotch bankers in those early days were in a position to freely grant Cash Credits to producers to aid their production in the form of their own notes and gold, now they are by legislative interference compelled to make their advances in coin, that is, in metallic cash and paper-coin, the notes being nothing more or less owing to the State prestige put upon them by the Bank Charter Act of 1844.

Yet he is aware of the highly appreciative references made to this in the Report of the Lords and Commons Committee, appointed in 1826, on the State of Circulation of Scotch and Irish Notes. "There is one part of this system," says this Report, "which is stated by all the witnesses (and in the opinion of the Committee very justly stated) "to have had the best effects on the people of "Scotland, and particularly upon the middle and "poorer classes of society, in producing and "encouraging habits of frugality and industry." The practice referred to is that of Cash Credits. From the *facility* with which the Cash Credits to all the *small transactions* of the country are granted, and from the opportunities which they afford to persons who *begin business with little or*

*no capital but their character to employ profitably the minutest products of their industry, it cannot be doubted that the most important advantages are derived to the whole community.*

And further. The Report continues: "The  
" witnesses whose evidence we have quoted stated  
" that it was calculated that the number of persons  
" who had Cash Credits granted to them amounted  
" to about 10,000 or 11,000, and, as the average  
" number of securities to each bond might be taken  
" at three, there were about 30,000 persons  
" interested as securities; so that the total  
" number of persons at that period—1825—who  
" were interested in the system was at least 40,000.  
" The Banks were then supposed to be under  
" engagement of that sort to the amount of  
" £6,000,000, of which about two-thirds were  
" drawn out. This system has a great effect upon  
" the moral habits of the people, because those  
" who have securities feel an interest in watching  
" over their conduct; and, if they find that they  
" are misconducting themselves they become  
" apprehensive of being brought into risk and loss  
" from having become their sureties; and, if they  
" find that they are so misconducting themselves,

“ they withdraw the security ; the practical effect  
“ of which is that the sureties do in a greater or  
“ less degree keep an attentive eye upon the future  
“ transactions and character of the person for  
“ whom they have thus pledged themselves ; and it  
“ is perhaps difficult for those not intimately  
“ connected with it to conceive the moral check  
“ which is afforded upon the members of a great  
“ trading community, who are thus directly  
“ interested in the integrity, prudence and success  
“ of each other. *It rarely, if ever, happens that*  
“ *Banks suffer loss by small Cash accounts.*”

Surely, in the service of science as well as that of historical truth and of humanity, it should be the duty of every writer who has laid himself out to make a special study of Banking and Credit to call out loudly in favour of the revival of a system which has proved itself to be the most beneficial and secure of any system revealed to the world. Judging of the manner in which the records of its faultless methods have been received by many of those quite capable of adjudging its high merits, one might imagine that the story of its triumphs were some chimera emanating from the fevered imagination of some poet or fictionist.

Yet there are the facts that can be read, marked, and inwardly digested by anyone who will take the pains to look into them.

And these facts are so glaring. Until about 1690 Scotland in regard to financial, commercial, industrial and social progress was in a semi-barbaric state. Men carried their lives in their hands, and life and property in many cases sought protection in vain. But from 1716 (the date of the Bank Charter and the introduction of the practice of note-issuing, small notes, and Cash Credits) we see the growth of a wondrous transformation—easy methods of communication, a big carrying fleet, fine ports, amplified trade and industry, working mines and flourishing fisheries. And last but not least about £30,000,000 deposited in the Banks and “a loyal population, characterised by “business habits, and a spirit of thrift from “which England and the Colonies has largely “benefited!”

This progress and this prosperity was achieved in the face of a score of impediments. Trade and industry had to struggle against heavy Protective Duties and tolls and taxes of various kinds. The soil was far from fertile; the climate was largely

unfavourable, while the Bank panics south of the Tweed were reacting adversely upon the Scotch Banks. One of the most remarkable and illuminating points about this strange history, and one that puzzled all the economists and financiers of the time and for more than a century, and led John Stuart Mill to let fall a remark which shows how dimly he must have regarded the phenomenon, was the fact that while in England during the self-same period the note-issuing Banks were failing all round and panic upon panic arose, in Scotland not one of the note-issuing bankers failed. The reason of John Stuart Mill's extraordinary comment on this apparently singular situation—namely, that note-issuing seemed to flourish, produce prosperity and to be secure north of the Tweed and to cause ruin and misery south of it—is because that economists failed to realize that the troubles suffered by English bankers were due to the prestige put upon their notes by the Government, which rendered them paper-coin, while the Scotch bankers issued notes entirely free, and therefore of the same nature as I.O.U.'s, drafts and cheques—in fact private credit-instruments of a nature suitable to the needs of the

poor and struggling workers in the various fields of production, and helpful in the matter of granting these veritable small Cash Credits which Mr. Wolff deplotes the absence of to-day.

Another point, and a very important one, is that of the replacement of coin by these notes. The issue of coin has never been sufficient to meet the needs of the people, and, as has been brilliantly pointed out by the deepest thinkers on this question, coin, while it is an excellent value-measurer, is the worst medium of exchange, for it represents the merest shop-keeping element of our so-called civilization. The proof of this can be given in a single sentence. Ninety-eight and a half per cent. of the transactions in the City of London are carried through without the exchange of a single sovereign—that is, by book-keeping, cheques, drafts, etc.—a fact which offers an undoubted tribute to the value of credit. The prosperity presented by the spectacle of this magic effect of credit, too, is the more accentuated by the fact that within a mile of the Royal Exchange, poverty and misery abound. And why? Because the denizens of Whitechapel, Bethnal Green and other squalid districts are condemned to the use of

scanty coin, and enjoy none of the benefits of credit to help them along in their daily struggle.

We have endeavoured in a brief form to give some idea of the old Scotch system—a system acknowledged by all economists, bankers and financiers as the best known one in the world. We now proceed to try and make clear the merits of another system, which, like the old Scotch note-issuing Banks, represent no cut-and-dried plan, but a natural evolution arising from a struggling people's attempt to adapt themselves to, and by their own ingenuity, to counteract the adverse conditions which through Governmental and other tyrannies weighed them down. We mean the French *banquier* system. The French *banquier* system must not be confounded with the few large loan offices in Paris and the more flourishing provincial towns of France, which advance cash on shares and other securities. They are of a type and have a mission differing from these. They are private *banquiers* who abound in their thousands in small centres as in large towns and villages all over the country, competing with each other in supplying capital and credit to labour. The nature of their business is to favour,

not the richest consumers, but the best employers of labour, thus facilitating work and production in every corner of the land. It is remarkable how little is known of these benefactors of trade and industry in our own country. Yet their good work has gone on for generations and still goes on and plays a great part as a regenerating influence not only in France itself, but among some of her neighbours on the Continent.

The draft is the chief medium of exchange in the French *banquier* system. The method is simple in the extreme. When a French producer or merchant has sold a parcel of goods and made out his invoice, his first step is to draw a draft on the buyer. This draft he takes to his banker, who makes out a *bordereau*, or a statement in which the net value of the drafts paid in that day is arrived at by the deduction of interest, differences of rates of exchange, and banker's commission. The drawer is then credited by the banker for the net amount of each *bordereau* in account current, and is allowed to draw either the full amount or part of it at once. As a keen competition exists between the bankers, such producers or merchants, whose drafts as a rule in due time meet with a



prompt acceptance and payment, can generally draw the full amount, and are often granted an overdraft.

It will be seen at once how fruitful of rapid production is this system. The business of the mass of *banquiers*, who, according to authoritative accounts, are spread like the meshes of a net all over the country, consists for the most part in discounting such drafts. Such a method of banking is obviously more profitable to the banker than money-lending, even at a very high interest, for it allows him to turn over large amounts with a very small capital. The drafts discounted by the banker for his customers are generally drawn on some place outside his market, and he always gives preference to such outside drafts before drafts on his own place or promissory notes. As soon as a banker, let us say in Valence, has received the drafts on other places, he sends them each to a banker in the place on which they are drawn, or if he has no connection with any banker, in small places, to a banker in the nearest centre. Drafts on foreign places are sent by him to Paris or to a foreign banker.

These corresponding bankers, on receipt of the drafts, credit the Valence banker with the net amount, and send him in return drafts drawn on Valence and its neighbourhood from other places which have collected in their hands. These the Valence banker presents for payment, and thus supplies himself with cash which he holds at the disposal of his customers.

If the Valence banker has only a small working capital he cannot do very well with return remittances consisting of drafts which have a long time to run, and as some bankers in minor places may be in the same position, the Valence banker sends such of the longer drafts as he or his corresponding smaller bankers cannot keep until maturity, to the wealthier bankers in the large centres. These credit him with the net amount, and he can draw at sight on them, or their Paris banker, for the amount.

Thus the Valence banker can always renew his cash supply, and as drafts on places outside his own district give him the greatest facilities for so doing in the ordinary routine of business, he prefers these kinds of documents.

Those who can draw them are not necessarily the wealthiest. They are rather those who can sell local products outside the district; that is to say, producers who can best employ labour, who can best utilize the resources of the country, and who have the greatest ability for business. This manifestly is a case of "Banks for the People"; because the rich who require cash for consumption purposes are not suitable customers for the local banker, for any capital which he might advance to them he could not replace except by borrowing himself.

This is the most important factor in the plea for an amplified system of Banking and Credit for the capital-less class: for these supplying methods of the French *banquier* serve to encourage thrift, enterprise and production by holding capital at the disposal of those who can best use it, and tends—an equally important point—to keep the cost of production low and the price of sale high. It therefore benefits the country in the same way as a revival of the old Scotch system of note-issuing would, though in a less degree.

We shall see later on, when we come to consider the vitiated Banking Systems abroad, and

the growth of People's Banks in their fierce conflict with Government resistance, in what a remarkable degree such Banks for small folk might have developed had they been left to work out their destiny as a free, unhampered evolution, as the French *banquiers* have been permitted to. A point strongly insisted upon by those writers who have made this question a special study is this: That in a state of absolute freedom, banking would take the form of note-issuing in any district replete with workers, or virgin soil, or raw materials—a grand plea for a system of Bankers for the Poor. The notes, they go on to prove, would gradually diminish, as compared with the business transacted, and though a certain number might continue for a long time as media of exchange, the bulk of the business on the spot would be carried on by cheques, and the business with other districts would be done by drafts after the manner of the French *banquiers*.

What freedom would therefore confer upon us, according to the gospel of Egmont Hake, Wesslau, and the Hungarian economist, Horn, would be that we should in this Empire enjoy all the advantages of all the best methods combined.

One thing is certain and particularly illuminating, and that is the amazingly beneficial results of the French *banquier* system. These are low cost of production and of living, high price of sale, an immense demand for labour, fairly distributed property, general prosperity, and a remarkable and rapid increase of capital and wealth, in the face of endless financial tangles, political disasters and dramatic scene-shiftings.

Of course it is not for a moment suggested that this *banquier* system has lifted the French nation into an ideal position. It is contended, and quite reasonably, that France, like our own country, is hampered by a central monopoly Bank, and all the good effects arise from the traditional methods of private firms. The powerful causes for trade depression and suffering among the working classes which are at work in that country are not to be ignored: they are alleged to be the constantly shifting Governments, the huge national debt, the gigantic army, a great navy, a ruinous protective system which renders nine-tenths of the industries a burden on the rest, sugar bounties, ship bounties, the inland protective system represented by *octrois* in all the

towns, bureaucratic interference in everything, economic misgovernment of the Colonies, etc., Moreover, some of the most important industries in the richest parts of the country, the Southern, have received heavy blows from other causes. The vine has been attacked at times by the deadly "phylloxera"; the cultivation of the madder-root is dying out, owing to the discovery of the aniline colours; and silk-growing is far from being what it was before the silkworm was attacked by disease. If the fact that France, in spite of all these causes of ruin, can find £8,000,000 for M. de Lessep's daring engineering enterprise in Central America, is due to the French *banquier* system, as the authors we have cited contend it is, this system has certainly a wonderful wealth-producing power.

But we can better appreciate the great advantages of this *banquier* system in Germany, for there it is comparatively new, and our English commerce has been immensely influenced by the results it has produced. Economic science teaches us that protective duties tend to destroy the export of manufactured goods, and experience universally confirms this fact. But the exception to this rule

which Germany seems to form has puzzled both economists and commercial men in England. For while the German Government, as Continental Governments are wont to do, endeavours to prevent prosperity and industry by legislating in defiance of the plainest truths of Political Economy, the export of German manufactured goods does not seem to decrease, for it is the general complaint of our Fair Traders that England is becoming swamped by German goods.

The explanation is simple enough. Prince Bismarck's mistaken economy has produced in Germany the same dreary results that similar mistakes produced in other countries. At the same time there is a great silent reform going on in Germany, unassisted by Government and unnoticed by economists, namely, *the gradual adoption of the French banquier system*; "and *this reform has so vivifying an influence on the "industries of Germany that it counteracts—at least to a considerable extent—even the "pernicious effect of the Government's mistaken "Economy."*"\*

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\* "Free Trade in Capital."

The new method seems to have entered Germany from France by the eastern border, as well as from Belgium and Switzerland, where it had been earlier introduced, and is now spreading all over the country. It is little heeded by the Germans themselves, for the change has been of slow and gradual growth; but the older inhabitants are well aware that in places where thirty years ago there was not a single *banquier*, they have now several competing for business, while in large towns *banquiers*' establishments are to be found in constantly increasing numbers.

It is interesting and important to note the comparison between the method of financing productive business in Germany now and in the old days: for this at once makes clear the importance of the change now going on in that country. A manufacturer, under the old *regime*, had to limit his business to the small amount of capital he actually possessed or could borrow from someone against mortgages or other securities, as we shall see later large numbers do to-day in certain districts through Land Banks and State Banks of all sorts and kinds. The purchase of raw material, therefore, had to be small, and generally



through some middle-man at a very high price. When he had finished manufacturing goods to the extent of his means, he was forced to restrict his production until his goods were sold and paid for; and as in most cases he wanted cash quickly, he was compelled to sell to another middle-man, often at a low price. Thus dear raw material, low price of sale, limited production, and heavy expenses were the conditions under which he was obliged to work.

But all that has changed. The *banquiers* who have overrun Germany are, as in France, ever on the look-out for genuine commercial drafts to discount. The manufacturer can now buy very largely and in the best markets, without the aid of the middle-man, who is fast disappearing, for the *banquier* will at once discount the seller's draft upon him. He can now manufacture on a larger scale for the simple reason that as soon as his goods are out of the works he can draw drafts on his customers, and against these his *banquier* renews his capital at once. Given that his calculations are correct and orders have come in, the financing is easy. It is not difficult to realize the enormous advantages derived from this system by

the German manufacturer, and the immense pull it must give him over his inadequately financed British competitor, who is for ever complaining of the dumping down of cheap foreign goods. Much might be said about the benefits accruing to him from buying wholesale in the best markets, on terms which for the seller are nearly as good as cash terms, as well as the advantages gained from a large turn-over. In all business, and especially in a manufacturing business, there are big expenses which remain the same, whether the turn-over be large or small, such as rent, interest on machinery, living expenses, clerks, foremen, models, patterns, moulds, travellers, advertising, experiments, samples, artistic assistance, dies, stamps, etc. In many small factories where these small expenses amount to as much as raw material and wages, and in many crafts carried on on a small scale, these are the chief expenses, while raw material and wages are insignificant. If a man has 70 per cent. of such expenses and a small turn-over, and can, by better financing, produce ten times more, his goods cost him 63 per cent. less, and he will easily beat those who work in a small way. Moreover, it is manifest that all such

benefits conferred by improved financing affect others in the community besides the manufacturer; they mean a general amalgamation of the welfare of the working people. A larger production means a greater demand for hands, a higher wage; and cheaper production means lower cost of living and extended enjoyment for the workers. It is clear then that the *banquier* system brings about a result which a good system always should produce—higher wages, with lower cost of production.

It has been argued by some that this seems impossible and involves a contradiction. But surely the above facts prove that this is neither a contradiction nor an impossibility. It is therefore not surprising that German manufacturers should seek out large customers, or that they should do their utmost to extend their connection among large British import firms or even among large British shops, and among British exporters to the Colonies and neutral markets.

In reviewing the effects produced by this truly remarkable *banquier* system upon German industrial activities to-day and contrasting them with their disabilities of thirty years ago, when the

*banquiers* were not in their midst, we are forced to the conclusion that we English are now much in the same retrograde position as regards financial facilities as the German manufacturers were thirty years ago. And surely this being so, it is somewhat astounding, to say the least, that, in face of these undeniable facts, we should go on seeking for a remedy in the direction of anti-economic measures and continue to cherish our own antiquated methods as though they were infallible. And the sad spectacle of British manufacturers handicapped at every turn and striving to keep pace with their more fortunate, in this regard more enlightened, foreign competitors, and being forced, often against their will, to sweat their own workmen, offers a saddening comment upon our dogged adherence to our antiquated and irrational system.

As the exponents of this *banquier* system truly conclude, that were it introduced all over our Empire, it would not be difficult to imagine its beneficial effects. Here, in the Colonies and in India, we should see the same results as in Germany; capital and labour united, greater demand for hands, low

cost of production, high wages, great power of consumption, an immense demand for goods, and high selling prices. In fact, in free-trading England the effect would be very marked, and the reaction between a prosperous Great Britain, prosperous Colonies, and a prosperous Indian Empire would certainly result in such competition for the working man that no sweating system would be possible.

But it will no doubt be said that the Bank Act of 1844 does not prohibit the *banquier* system from being introduced into England, India and the Colonies; it simply prohibits private note-issuing; and this is forbidden even more strictly in both Germany and France. True: there is nothing in our law to directly prohibit the *banquier* system in the British Empire; yet it can be shown that this Act of 1844 is the only obstacle to the practical introduction into the British Empire of the *banquier* system, or at least a system which would include all its advantages and a great many more.

The *banquier* system in France is the natural product of an historical evolution which we have not experienced. How it arose and was developed

would be difficult to explain; but it is pretty certain that great troubles had something to do with its growth. Unreliable coin, official dishonesty, scarcity of precious metals, bad paper-money—these were probably the evils which impelled the development of the French financial methods. Whatever the causes which called the system into existence, they must be looked for far back in history. In Germany, where the system has been imported ready-made from France, its adoption has been very slow and gradual, and this in spite of the unbroken line of contact of German commerce with that of France, Belgium, and Switzerland.

From this we may conclude that it would be a very long time before the system, under present circumstances, were adopted in England generally enough to confer the same benefits on the English trades as it has conferred on the French and German. Nor must our reluctance to adopt anything foreign, as well as the peculiarity of our geographical position, be forgotten. Besides all this, our existing methods present special obstacles to the working of the French system among us. Of these we will, by way of illustra-

tion, point out only two, namely, our own banking methods, which from the bank's point of view are profitable; and the general objection on the part of the commercial and trading classes to drawing and accepting drafts—which are the indispensable instruments of credit in the French system. When, thus, both the banks and the public are prejudiced against the system, what hope is there that it will ever be introduced.

To-day there is much talk of “solving the Land Question,” but there seems to be only an indistinct realization of the vital importance of Banking and Credit to the small farmers and industrials in these islands. Try and experiment as the Government may, it will sooner or later come back to the fact that the Land Question in reality is a Capital Question, only to be solved by the application of that much-neglected trinity—land, labour and capital. The land cannot help the owners or the labourers without the aid of Banking and Credit. That is evidenced by looking around at those countries which have experimented in the opposite direction and signally failed. Perhaps the most glaring of all the examples and the most convincing is that of

Russia, where some sixty million serfs were transformed into proprietors by having the land given to them, but without any provision being made for either capital or credit. The result was that the new landowners rapidly fell into the clutches of the usurers. Its village had its mure-eater, or village-eater, and to these leeches the peasants lost not only the land, and all their other possessions, but in many cases all their future work at a low nominal price. Large hoards of these now landless people keep drifting in search of work from one end of the country to the other; and the poverty is appalling.

In Sweden and Norway the peasants had been freeholders as far as tradition goes. In olden times, before the commercial system was developed, these independent peasants held their ground against the nobility, and, during periods when wars and revolt did not devastate their countries, the peasants possessed large wealth and held positions which fully justified the name frequently given them in the old chronicles, of peasant kings. They withstood the sovereigns, the feudal lords, the crafty priests, the cruel devastating warfare of those days; but Bank



monopoly and usurers were too much for them. Almost every peasant, every landowner of these countries is now indebted up to the utmost valuation of his estate.

The profit on farming is extremely small and uncertain. The woods are ravaged to supply pit-props to England at a price that hardly pays for the labour and the cartage to the ports. Though the population is scanty, emigration is excessive, and large numbers of land-owning peasants quit their farms and emigrate to the Northern States of America, where a new Scandinavia is fast forming.

While similar difficulties afflict the farmers of Germany, Switzerland and Italy, we find that in France (at least until recent times) the farmers have been able to remain in possession of their farms and keep free from debt. The cause of this is to be found in the economic condition of the country. The *banquier* system of that country, as we have already pointed out, supplies the producer with capital and media of exchange on a more rational system than in any other, while, as we have shown, it tends to lower the cost of

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production and raise the price of sale, thus rendering farming remunerative.

It is for this reason that some of us have determined to show the way by the establishment in Sussex of a model Land Bank which does take into consideration the vital importance of Credit—a project which we trust and believe will be copied throughout the length and breadth of the Kingdom.

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## CHAPTER III.

## THE PIONEER OF PEOPLE'S BANKS.

**W**E have seen that monopolies in banking, moulded on the patriarchal system of our ancestors, have tended and still tend to deprive the struggling section of the citizens and the still more struggling wage-earners of those financial facilities which manifestly would uplift them and widen their area of activities in those industries in which their lot is cast. Let it be noted, therefore, that even as our own monopoly system hampers, cramps and fetters the economic aspirations of our own industrials and agriculturists, so the *Reichs Banks* of Berlin and the groups of Banks moulded upon its monopoly restricted the ambitions and actions of the peasant farmer, the small trader and the working man throughout the length and breadth of Germany. It was the realization of these and other official shackles which no doubt set the pioneer of People's Banks in that country,

Schulze-Delitzsch, thinking, and led him to construct a system of banking suitable to the needs of a capital and credit-starved people. The task he had set himself would in any case have been arduous; but to some innovators it would have savoured almost of the impossible and, in reviewing the slow evolution of his life-work, it will be well to note how, at every turn and throughout every phase, he was faced by a series of artificial impediments set up by an army of dictatorial bureaucrats and pettifogging police. Moreover, other forces were at work to obstruct and arrest the course of his endeavours. At the time of his initial efforts—the middle of the last century—many European States were passing through a stage of social, political and economic ferment, and this was especially the case in the country of his birth. The air was charged with the theories of the latest exponents of the New Socialism. Karl Marx and Lasalle held large masses of the public by the ear. They were sedulously impressing upon the masses the importance of the Government acting as the parent and guardian of the people. They had even captured the attention of the more educated classes, and

were founding a cult and a school. Karl Marx's work, "*Das Kapital*," had lured many into the belief that the Capital Question could be solved by means of Government interference and Government aid. It is therefore clear that the situation was one that might well have dashed the hopes and baffled the high designs of even a more courageous man.

But Schulze-Delitzsch was not to be deterred from pursuing the noble work he had valiantly set himself to carry out. And his outlook on life, his career up to the starting-point of his crusade, his knowledge of his country's conditions, his strong individual views of economic organization, his habit of watching and dealing with public questions and his official experience—all these, together with his set purpose and his high resolves, constituted a fit armoury for so bold a fight.

As a village magistrate he possessed unusual opportunities of noting and studying the perpetual struggles of the poor. He perceived that they were drifting into a state more abject than servitude. No longer did they rely on the play of their own personality. Their faith in themselves

and such powers as they still possessed was fast waning. Their judgment was becoming warped. Their spirit of enterprise and initiative was losing all impetus.

Schulze-Delitzsch saw the dangers of such drifting. He saw the cumulative growth of absolute impotence they were gradually and half-unconsciously courting. He foresaw how this constant dependence on outside aid instead of upon themselves would in time doom them to utter demoralization, and bring them to the low level of babes and sucklings. There was only one way—the free road by which he could help them to help themselves. They had been scattered, each coping with his individual suffering and struggle. It was through the sovereign remedy of association, of union, of collective endeavour, that they could alone succeed in getting back to a healthy condition of self-reliance and self-help. Co-operation was the talisman by means of which the new and healthier order of things should be brought about, and to that end he set about his new work.

He found that they were weighed down by many evils, chief of which was usury. The common interest on small advances of capital

was rarely less than 60 per cent., while there were innumerable instances of working men borrowing fifty thalers for the purchase of material, and were made to pay one thaler per day interest, or 730 per cent. per annum! Strength based on united effort, resisting power against the persecutions of the usurers by means of co-operation—these were the channels through which a certain share of economic freedom could be reached.

In 1849 this remarkable man started on his work of reform. At first he confined his activities to the little district of his birth, a village named Delitzsch, with its population of about eight thousand souls, and afterwards, when practical success had crowned his efforts, he became, in the words of Dr. Cruger, the head of the Schulze-Delitzsch Union, "a flaming missionary who in the teeth of enormous hostility addressed hundreds of meetings and enunciated with amazing eloquence and equal lucidity his great new gospel of co-operative credit." His first move was an association to relieve the sick; his second a union of shoemakers for the purchase of raw materials. The results of these small organizations on the

co-operative principle were sufficiently encouraging as a beginning. And a year later he founded his first Loan Society upon a truly modest basis. Its members were all workmen, and their number only ten. But it was the beginning of greater and more far-reaching enterprises. It demonstrated beyond dispute the virtue and value of two factors—co-operation and credit. It made manifest, in a glaring degree, the fact that the usurers were an artificial product permitted to continue their rank growth in the absence of sound, healthy, rational, free competition. The rapid results attained are sufficiently convincing; for at the very start of these novel institutions, they were able to show a considerable profit at an interest on advances of even 12 to 14 per cent., and interest afterwards within a very short period reduced to 8 per cent.

The usurers were instantly up in arms against him. His every attempt to snatch the working-man from their clutches was ruthlessly opposed. His political opponents resorted to every device to impede his progress and break down his propaganda. The Government and the police sought every means in their power to prove the illegality



of his proceedings, and they succeeded in demonstrating that the New Loan Societies, under the then common law of the country had no commercial status. In accordance with this law, they stood in the position of individuals rather than in that of associations. They could not sue or be sued except on the condition that the deed of constitution was signed by every member. So rancorous, indeed, was the allied opposition to this reformer's enterprises that even the doors of the Press were shut against him. But he came out the conqueror. He baffled the law and the police by the invention and exercise of a score of ingenious evasive devices in the matter of rules and regulations, dodging them at this point and at that. Gaining the confidence of the community by the solid financial basis of his little Banks, he gradually scattered the wolfish usurers, and finding the Press no longer accessible, he waged war with his enemies by means of pamphlets and leaflets exposing them to public scorn and ridicule and setting forth the new doctrines and the main motives of his cause. Finally he started a newspaper of his own at Leipsic, which soon became the recognised organ of the new movement, and,

as we shall see later, his unflagging courage and persistent energy were rewarded to an extent that exceeded even his own enthusiastic expectations. Yet no less than twenty years went by before the law of his land recognised the legal existence of his Banks on a commercial footing!

The essential point to note in the history of the initiation and gradual growth of these People's Banks is the incalculable virtue and value of credit in all industrial, commercial and financial beginnings. Credit represents the interregnum between the starting point and the achievement. It is the Archimedean lever that helps to lift the struggling indigent, capital-starved worker to the longed-for heights of independence. We have seen the fructifying effect produced by credit unhampered by the law in Scotland. We shall now see its beneficent influence in Germany, despite the host of restrictions, prohibitions, regulations, inspections and the rest of a perpetual array of Governmental follies and fallacies that, but for its inherent vitality and the high and unremitting pluck, energy and wisdom of its leading exponent and protagonist in that country, would have been strangled in its infancy. The

German patricians and well-to-do workers in the different Principalities, Duchies and States had long profited by at least a share in the prosperity-producing power of a certain credit system. It was far from an ideal one. It embodied defects and fallacies inseparable from all anti-economic methods and Governmental meddlings. Its very inception savours of inanity. For the motive-power behind it was the simple yet afterwards highly complex device of ridding the great estate-holders and nobles of their debts and encouraging consumption instead of fostering production. Moreover, all the credit institutions that had been established were of a very primitive and patriarchal order and all in some degree in the iron clutches of the State. There were so-called Land Banks, there were Mortgage Banks, and there were State Banks, all built up upon a labyrinth of elaborate and complex rules and regulations and hemmed round and hampered by Government supervision and the corroding influence of fiats, ordinances, decrees and the remnants of that feudalism which the independence into which the people had passed had failed to eradicate. It would be tedious to

describe in detail the ponderous machinery, the subtle and ingenious devices, the precautionary measures, the enforced adaptability to official dictates, the strainings after an infallible security, that went to make up the constitution of these models of financial and economic error. Still they supply useful illustrations. They show that, however mistaken their methods, they were permitted to cater for the privileged capital-holding classes and made to entirely and absolutely ignore and neglect the more pressing needs of the peasant farmers and the peasants. Also that, as monopoly engenders monopolies, they indulged in charging monopolist rates. They are illuminating, too, from the point of view of how banking stood in relation to the pragmatical principles and methods of the law, and represented a standing menace to any innovator daring enough to create and apply a new form of credit system for the uplifting of the despised and neglected working men and peasants. And, as colossal edifices raised on human prejudice and ignorance and the fussy tyrannies of an autocratic and bureaucratic rule, they make clear, in some degree at any rate, the character and extent of the

difficulties with which Schulze-Delitzsch's campaign was beset.

The progress made by his little Banks was a solid and enduring rebuff to the police and the usurers, and showed how clearly he had read the situation and foreseen the crying needs of the workers. From the initial little Bank of ten members at Delitzsch there soon grew up groups upon groups of these Loan Societies, which year by year spread all over the Fatherland, and, as we shall see later, laid the foundations of networks of People's Banks all over Europe, and penetrating even to the remoter districts of the United States. In a few years over 2,000 of these Banks had sprung into existence, each one counting 512 members, or throughout the country just one half-a-million members, with about £79,000,000 advanced as loans, £5,000,000 as capital, £1,270,000 as reserve, and £21,250,000 as deposits and borrowed funds. Year by year they have continued to flourish and multiply. Each twelve months has witnessed an accession of strength, until it is now recorded that the institutions, banks and associations started under

Schulze-Delitzsch auspices number over 6,000, with millions of members.\*

Few men have had a more sound and sane idea of the meaning of credit than Schulze-Delitzsch, considering the restricted area of his knowledge of exact Economy and the official difficulties he had to face. His main idea in the establishment of these Banks was to raise the labourers to a higher moral level by giving them the chances of improving their material welfare. A study of his system clearly demonstrates that self-help and mutual help were the cardinal agencies through which they were to attain to a sound system of co-operation, and thus hope to raise themselves to a higher social and moral scale. But if, when the immutable laws that underlie banking come to be better understood and more generally recognised, his place among the world's workers is not in the charmed circle of economists—he will take a high

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\*Precise figures as to membership, etc., are not easily obtainable, as it is necessary to differentiate between the Societies within the Union and those working on similar lines outside it. In 1908, there were 1,022 Societies composing the Union and these had a membership of at least 700,000, and a paid-up share capital of £10,755,000, and a reserve fund of £4,463,000. As showing however the enormous number of Co-operative Banking Organizations not included in these figures it is sufficient to point out that in the same year (1908), a sum of £240,000,000 was advanced in loans by some 17,900 Institutions.

place as an active and practical exponent of the incalculable and eternal value of small financial accommodation to the capital-less classes. As a German no doubt his education was higher than the ordinary, and his history would tell him since the days of the ancients down to his time, during which he profited by a close observation of surrounding actualities, how the use of credit had shown itself to be an actual necessity of the march of progress in all lands and among all peoples. But he brought his enterprise more than a fine appreciation of its work. He saw that among a class of people unaccustomed to its enjoyment certain safeguards must be constructed to ward off any attempts at its abuse. In such, history, of course, abounds, and that very abuse has served in a thousand cases to put back the hands of the clock of enlightened advancement. Some very admirable observations on this particular question have been set forth by Sir F. A. Nicholson in his Report regarding the possibility of introducing Land and Agricultural Banks into the Madras Presidency, an admirable move if proceeded upon on rational and scientific lines, instead of antiquated and prejudiced ones, for no areas need

them more than our great Dependency. No nation in the world, he says, not even the German peasant, has refrained from using to the full the mortgage-credit made available to him by social and political events such as: in Prussia, the change from feudalism to independence; in India the evolution of order and the establishment of general peace; in America the development of values by the introduction of railways and the accumulation of wealth. Much indeed of this indebtedness is due to causes outside of the farmer's control, but it is none the less true that the abuse of credit, even among the more intelligent and wealthy class, is general.

"Credit," says Sir F. A. Nicholson, "is a weapon that may destroy the unskilful wielder; it is helpful or destructive according as it is used or abused. The abuse of credit may be seen in millions of cases where the power of mortgaging a sudden and unearned increment of value has beguiled the ryot or the European peasant into an indebtedness which finds no counterbalance in an improved estate; its use and power in those wonderful and stirring pictures of revived peasant life which are to be found in the reports of the



Raiffeisen and Wollemborg Associations of Germany and Italy, in which the ignorant, starving, usury-ridden Bauer or Contadino—the latter often a mere tenant—finds new powers, new hopes, and new prosperity through the agency of associated credit. It is not credit alone that has done this; isolated credit means, as heretofore, isolated and therefore ignorant ideas of the use of credit; it is in the addition of mutually helpful association that credit assumes that ability to stimulate, strengthen, and raise the peasant, even when a drunkard, an idler or a pauper, of which the Raiffeisen and Wollemborg Societies present such striking object lessons to the Indian world. Free and unrestricted credit to agriculturists in isolation is a positive danger; credit in association, guided and influenced in its use by the wiser counsels, by the increased self-respect and self-restraint which association with the wiser and more prudent in a mutual self-developed, self-managed association produces, is a powerful restorative, and educative and disciplinary agent, a national necessity. Hence it is not merely cheap and facile credit that is needed; it is not money lent on easy terms without regard to the use made

of the money; it is guarded, guided and productive credit that is the necessity of the times; the form which organized credit must take must in itself be a safeguard, a guide and a restraint, so that credit may be used not for mere extravagance or even without intelligent foresight, but only in such manner as will conduce to prosperity and production."

It is part of the history of nations that the usurer surrendered to the establishment of sound and sane credit.

Sir F. A. Nicholson, who has thrashed out this question in so masterly a manner, goes on to say that "the promotion of thrift, the utilization of petty and idle hoards in productive industry, the necessity for drawing from larger sources of capital, the ability to grant long-term loans and to receive loans back in small instalments; the public and open methods of business; the general absence of fraud and chicanery in dealing with borrowers; the absence of desire to possess themselves of the land of their debtors, or to acquire undue influence over them for selfish ends; the tendency to grant loans chiefly for productive purposes for the sake, however, not of the borrower, but of their own

security; such are the advantages common to all institutions of organized credit. But the greatest of all advantages is found in that class of banks called co-operative, where the advancement of the members, i.e., the borrowers, is the principal object of the banks, and not the mere earning of dividends on capital, still less the exploitation of the borrower. The moral and material effect of associations in a really co-operative bank is marvellous, the new power obtained by the members, the educative influence exerted by the bank in promoting improvements and discouraging extravagance, the continuous impulse towards further developments, not merely in credit, but in all manner of social and industrial improvements, which the principle of association developes, proclaim the co-operative societies of Europe and America as factors of incalculable value in social development. It is this reason above all others that is of weight in determining whether credit should remain a monopoly of the private lender, or should develop by organized association. It is not every organized credit that has all these merits; joint stock credit is good, but, as ordinarily practised, it lacks the weightiest of

all reasons, that of the effect of mutual help in co-operative associations. Other forms of credit have the interests of lender and borrower in a manner opposed, while in many organizations it is the special interests and often the object of a body of men to exploit borrowers and depositors for the sake of private gain. Really useful credit attains its full development only when its own interests are absolutely bound up with the interests of the community, when the community is at the same time the promoting body and the clientele; in other words, when it is co-operative. It is assumed, then, as axiomatic, that the establishment of an organized system of banking, especially co-operative, is desirable and even necessary, to promote the useful accumulation of capital, to develop the qualities of thrift and prudence, to assist industries, and especially agriculture, by long-term loans, to turn credit into productive channels, and to stimulate into activity the great virtues of self and mutual help. Capital in its widest sense is divided into three heads, real, chattel and personal; the first is that based on land and immovables, and should ordinarily be used for long-term improvement

loans, secured by mortgage; the second is that based on movables, whether by actual pledge as in pawnbroking or deposit of valuables, or without delivery as by bills of sale; the third is that indeterminate credit based on what is technically called "character," but which really includes a man's status, property, character, power of obtaining sureties, and prospects; such is the ordinary cash credit of Scotland, the general credit of the Popular Banks of Europe, the common loans to agriculturists by money-lenders in this and every country, shop credit, and the personal loans of the Madras Nidhis. Each class of credit has its own appropriate institutions; it is rarely that all or even several of the classes are combined in one bank; even the Madras Nidhis are usually found to deal chiefly in one or other class.

Recognising the above as a statement of the chief uses for which rural credit is required, it remains to examine the postulates of such credit. These fall into various classes: (1) those which are demanded by credit in general and by both lender and borrower; (2) those demanded by the lender; (3) those needed by the borrower; (4) those

demanding by particular applications of credit. While thus classifying them for convenience sake, it must be noted that the absence of those demanded by the lender eventually affects the borrower; what is unsafe for the lender, must cost the borrower dear.

That which is required jointly by both lender and borrower may be summed up in the word "proximity." The great lesson of European credit is that without proximity there is no such thing as credit on any reasonable terms for the small folk; hardly, indeed, is there credit at all. Until of late only one form of credit satisfied this postulate, viz., that of the private money-lender; his credit satisfies the postulate of proximity, but not necessarily any other postulate.

The borrowers contemplated are the men of the villages, and the loans those required by small and obscure folk; no man of any ordinary type can get down to the villages, ascertain the status of the small farmer and the security he can offer; the expenses of the enquiry and the risks of the loan would render the necessary cost of any loan far higher than that of the local and proximate money-lender, who, probably a villager himself,

certainly with a life-long connection with the village clientele, knows his men and their position better than they themselves. Moreover, the peasant is often ignorant of town banks, and unacquainted with their, to him, "strange" methods and rigid rules. As a result the Bank remains in ignorance of his needs and is therefore precluded from coming to his assistance.

The German Land Banks, the French Credit Foncier, the Hungarian Boden-kredit Institut, have nowhere attempted to deal with the masses of peasants. Till of late only the Scotch Banks, with their peculiar history and thousand agencies, and an occasional State Bank in some petty German State, have succeeded in giving to the peasant that continuous credit, mortgage and security which he requires. But of late, say from 1850, banks have become increasingly available to the peasant even of the smallest type; such are the Swiss Banks, the Savings Banks of Prussia, the Popular Banks and Credit Societies of Germany, Austria and Italy, the Building Societies of England and America, the National Banks of the United States. In every one of these cases the

first reason of their success is their absolute proximity to the clientele, so that that knowledge which is the first basis of all credit becomes a fact.

It was to all such considerations and many others that the inauguration and firm establishment of these banks for "Kleine Leute" or small folk of Schulze-Delitzsch creation were due. His grasp alone of the fact that such institutions should be used for the purposes of production and in no way for those of consumption was in itself an object-lesson to the banking world. His dogged resistance to State aid and State privileges of any sort or kind, his persistent declarations that any such interventions represented an injury rather than benefit to the people, his obstinate adherence to his own creed that men associated upon free principles, unhampered and unassisted by Government charity, or philanthropy, were a tower of strength in themselves—all this marks Schulze-Delitzsch out as a deep-thinking, far-seeing and staunch friend of humanity. He anticipated by practical demonstration the phrase of Sumner: "The only true secret of assisting the poor is to make them agents in bettering their own conditions."



The recognition of the principle of proximity—not too arbitrarily enforced—was a good one inasmuch as it afforded facilities for the acquirement of local knowledge of members on the part of the Banks, of the Banks on the part of the members, and of the membership on the part of individual members. Another principle served to exercise a healthy influence—that of association with unlimited liability—although, of course, any other form of liability was then unknown in Germany. Under it the maximum of credit was granted in the absence of material pledge, preventing the admission of any other than the thrifty and the prudent, encouraging a spirit of *camaraderie* among the members, and laying down as a rule not to be departed from, that loans were only obtainable when used for productive or self-promoting purposes. Parenthetically, it may be remarked that the principle of unlimited liability to which Schulze-Delitzsch adhered for some years, only abandoning it at the end with reluctance, was a curious inconsistency, for obviously it gave a collectivist, rather than an individualistic, atmosphere to his project. The effect of these well-considered rules proved salu-

tary in a high degree also in the direction of safety; a high level was attained in the shape of share capital and an abundant reserve not merely as demonstrated by the deposits—amounting to on an average three times the share capital and reserve—but safeguarding these societies from losses or failure.

The methods adopted by these Banks were inspired by considerations similar to those which gave rise to their principles. Each member acquires a share, the share capital thus formed serving at once as a guarantee or a loan fund. The guarantee of unlimited liability\* and of the shares encourages the coming in of outside capital which is advanced in the form of short-term loans to the members. After assigning a certain amount of the profits to a reserve fund, the rest are credited to the Share Capital and devoted to the payment of the directors and the staff. There is no law laid down as regards local limits, but a town or a large village is generally chosen for the office of the Bank. The Society is composed of

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\*At the present moment there are at least 330 Societies within the Union who have adopted the principle of limited liability.

seven persons at least, who draw up the Articles of Association.

The general body selects a Board of Directors and a Committee of Supervision. The statutes, with the names of the directors, must then be registered in full in a register of the Loan Societies kept in that Court of the district which keeps the commercial register. The statutes are examined and certified by the Court, which also publishes an abstract of them. Only after the above registration does the Bank acquire a legal existence, and it is then considered as a "commercial" or trading personality, subject to the provisions and with the rights granted by the Code of Commerce.

Anyone who can prove that he is worthy of being one, may be a member, but candidates must show that they are ready to endorse the principles of self-help and thrift. After enquiry into the character and circumstances of the candidate by the directors or Committee of Supervision, admission is granted. This is a simple matter since candidates are generally from the same village, petty town or neighbourhood. Every member is bound to sign a declaration of adhesion to the con-

ditions of the Society. Those who have no material capital, save perhaps some tools, yet a moral capital in their honesty, industry and skill, are the classes aimed at. Those particularly chosen were the urban artisans and small-traders, while no special provision was made for agriculturists. Yet nearly one-third of the members are nevertheless of the farming class.

The law allows transfer of membership, but the Banks may, by law, refuse to allow it, or may impose conditions, as a retiring member has a right to his share value, but not to any portion of the reserve. He is partly responsible for the debts of the Bank for one-and-a-half years after retirement or expulsion.

“ The societies are wholly autonomous and democratic; they are neither dependent on one another nor on any external authority or institution. The general assembly is the source of power; this consists of all the shareholders, each of whom has one vote and one vote only. This assembly elects the Board of Directors, but these are subject to the control of the Council of Supervision, which can suspend them and call a general assembly for their dismissal. This Council is,

in its turn, amenable to the control of the general assembly." The third chapter of the law of 1st May, 1889, which gave recognition to these Banks as commercial concerns, and the model statutes of these Banks give complete details regarding the administration.

By this same law of 1889, every member has a right of voting, on the "one man one vote" principle—a rule followed by the majority of co-operative societies. Any member wishing to vote must do so in person; where the members are females, or incapable, or are themselves societies, as in Unions of societies, this, of course, does not hold good. The directors or the Committee of Supervision convenes the meetings; this is after the end of the business year so that the general report may be presented, and on orders issued every quarter. \*

The following is a clear account of the various restrictions and rules:—"The balance sheet must be laid on the table of the office at least eight days before the annual meeting, and members must be informed of this. There are strict rules for the assembling of both ordinary and extraordinary meetings, for the conduct of business at the meet-

ing, for ballot, and for the resolutions passed at a meeting for which the law and the text of the model statutes may be consulted; for certain classes of resolutions a three-fourths majority is necessary, and for certain of these at least one-third of the whole body of members must be present, failing which a second meeting must be summoned, for which no minimum is fixed. Elaborate precautions are laid down for duly recording the resolutions. Certain subjects are expressly reserved for the decision of general meetings for which the Articles may be consulted. The directors usually consist of three working members, who may or may not be remunerated; if remunerated, which is usual, they get either fixed pay or a commission on the profits, or both. They fully represent the society, judicially and otherwise, the signatures of any two of them binding the society; they are responsible for carrying on its work according to their discretion, and are separate from the paid office staff, but their duties are in some ways more like those performed by managers, and they are partly responsible to the Committee of Supervision. The directors are elected for three years by the general meeting.

Their duties and responsibilities in the matter of general meeting, their duties and responsibilities in the matter of general business, of keeping a register of members, of observing the provisions of the law as to the returns, etc., to be made to the Commercial Court, of book-keeping and preparing the balance-sheet, of providing for external audit and of receiving and issuing money, their relations to the Council of Supervision, their remuneration and the security to be given by them, are minutely prescribed in the law itself and in the model statutes."

The actions of the directors are very closely supervised. The directors act in conjunction with the Council of Supervision in all matters appertaining to the engagement and dismissal of the paid staff, the conclusion of certain special contracts, the fixing the rate of interest and commission on loans, the admission of new members or the proposal to expel them, the contracting of loans by the issue of debentures with the details as to amount, etc., the conditions for cash credits and saving deposits, and various other matters. No director is permitted to obtain any loan from

the Bank during his term of office. If the Articles are not prohibitive in this regard, the law provides that the consent of the Committee of Supervision shall be necessary if no other special conditions are laid down.

The members of the Committee of Supervision do not actually interfere with the conduct of business, but have complete supervision over the operations of the Bank. They are obliged to meet once a week, and the directors are expected on such occasions, as well as monthly, to hand in a report of the disbursements. Every branch of operation is supervised and the committee can call for reports from the directors at any time. They can and must examine the books, cash and securities frequently, and must assist in the special audit. They can summon a general meeting whenever necessary, and can suspend a director and make arrangements for his duties when necessary, pending the decision of a general meeting. Loans to members of this committee are granted only under special precautions, and neither they nor directors can be accepted as sureties for loans. The duties of this committee are worth noting. The audit is now fully provided for in the law and



in the Articles. It was found that unless due audit was made compulsory, it was often neglected, and Chapter IV. of the law of 1889 is now devoted entirely to the subject of audit *ab extra* while Section 7 of the same law renders obligatory due preparation and inspection of the balance-sheet. The directors are made responsible for the accounts. One of them, the treasurer, must supervise the accounts, another—the auditor or comptroller—is compelled to check them. The committee are expected, indeed are compelled, to constantly examine the books, accounts, cash and securities of the Bank, and have the right to seek the assistance, at the cost of the Bank, of experts for the annual examination of the accounts.

The law compels audit *ab extra* at least once in two years. In the case of the Bank belonging to a Union or Group, the auditing or inspecting experts of such Union are the auditors. It is required by the law that the mission of such Union is the audit and inspection of the Bank. Where the Bank is not affiliated to any Union, the local Commercial Court appoints an auditor, in communication with the Bank and the local Government Executive officer. By the decision of

a general meeting, special committee can be appointed of three members as auditors, and these are vested with all the powers of the Committee of Supervision for the examination and inspection of accounts.

The funds available to the societies are share capital, reserve, deposits, borrowings.

A share capital is considered essential, not merely for loans *ab extra*, for the Bank provides to a considerable extent for these, but in order to encourage habits of thrift and to provide loanable capital. This is made up of the shares of the members. The value of each share varies with each institution. The smallest is usually £6 (40 thalers), but may be much larger, thus allowing for the continuance of the incipient thrift; but the minimum is kept low to prevent the poorer members from being in a minority as compared with the more prosperous ones who count on heavy dividends. At the same time the shares are not permitted to be too low, as the share capital in such case would be too small. Only one share is held by each member, the Banks being of unlimited liability. These may be paid up at once or by very small monthly instalments, all profits

being credited to a share until it is fully paid. This is an excellent rule since the credit allotted to each member takes into consideration the amount paid by the member, and it is obviously to his interest to accumulate as much as possible with the Bank. Besides this, dividends are allotted upon the amount paid up, and thus a member's share of the profits increases with his thrift. In all cases a small entrance fee is demanded. The law makes the reserve obligatory, and is provided from entrance fees and a share of the profits, and is allowed to accumulate till it attains to at least 15 per cent. of the share capital. A fine tribute to the efficiency of this rule is to be found in the fact that the reserve of 1,076 Associations in 1892 amounted to 25 per cent. of the share capital. To credit the whole profits for the first year or two to the reserve is the general custom; but after that 15 or 20 per cent. is found sufficient. This reserve is kept full, and any falling off due to payment of losses is immediately replenished from the next year's profits. No claim upon reserve can be made by any retiring member. The reserve may be employed in ordinary business, but all sums must be cautiously invested.

It is refreshing to find that cash credits are rapidly becoming popular and are based, as in the Scotch system, upon a bond with other members as sureties. Mortgages are also accepted as collateral security. Three months with prolongations represent the usual term for loans and bills in these Banks. In the case of cash credits the accounts are renewed or closed every six months. The first principle in banking laid down by Schulze-Delitzsch was that the term for loans should be no longer than that which the Bank itself could obtain for its own borrowings.

Mr. Wolff gives the following statistics which are especially worthy of note. "For the year ending March, 1892, the figures reported to the Central Association alone are as follows: 1,470 Associations reported, of which 1,076 were credit societies, these latter had 514,524 members, or 478 per society, very few having less than 50 and only seven more than 3,000 members; about half the number range between 100 and 350 members. About one-tenth of the members are women. The paid-up share capital of the 1,076 societies was £5,724,225, their reserve £1,473,702, in addition to the paid-up capital, to which it bears a ratio of

above 25 per cent.; each society has on the average a capital *plus* reserve of £6,689, and each member has paid up an average of £11. Borrowed capital, chiefly deposits, and loans from Savings Banks all below six months, was £21,951,159, so that the total working capital of 1,076 Banks was £29,149,085. In every £100 of working capital £20 (round figures) were share capital, £5 were reserve, and £75 were borrowed. The loans issued were £78,080,526, of which bills issued in favour of the society were for £27,865,803, ordinary bills of exchange discounted £17,644,502, promissory notes and simple bonds £4,569,842, mortgages £689,904, and cash credits £27,315,930. Each society lent on an average £72,565, or at the rate of about £152 per member. The outstanding balance against cash accounts is now known; on ~~an~~ average of seven years it is just 25 per cent. of the aggregate of the credits allowed; there were in all 48,185 cash accounts. Exclusive of these there were in the year 1,568,424 loans aggregating £50,765,095, or £33 7s. per loan, a sum which sufficiently shows the class dealt with. The total business done, i.e., money received and money paid out, was £130,646,898; it varied from £300

to £5,250,000 per society. The cost of administration was £312,542, or £291 per society, a rather high figure. Losses were £61,882 and net profits £442,025, of which about two-thirds were credited to dividends and nearly one-fourth (£96,365) went to the reserve, the remainder being balance. Dividends ranged from nothing to 30 per cent., the average being 5.34; £2,653 were granted towards education."

Such was the system elaborated and applied far and wide throughout his native land by Schulze-Delitzsch—a system which was destined to spread its influence far beyond these borders and in slightly modified forms, to benefit alien races even as his system has ameliorated the condition of his own struggling compatriots. But, while the great reformer was conferring prosperity upon his fellow-men, he had been impoverishing himself, and when, his labours at an end, he had taken the last farewell of his wife, his family, and the world, it was found that his kith and kind had been left penniless. A monument was raised to his memory at Leipsic at a later date, but the true monument to such world-workers is embodied in their beneficent deeds and in the life-work they leave behind them.

## CHAPTER IV.

## THE RAIFFEISEN SYSTEM.

**N**OW, let us see what another reformer—a Burgomaster in the Westerwald named Raiffeisen—was doing in other regions of the Fatherland whilst Schulze-Delitzsch was fighting for the good cause of Capital and Credit in his own. He was trying to do for the small farmer and the labourer what Schulze-Delitzsch had been trying to compass for the industrial and the artisan. This was in one of the poorest and least fertile parts of Germany. Barren soil, scanty communications, bleak surroundings, indifferent markets—such is the description given of the dreary and unpromising district in which this brave innovator began his labours. Nature had proved a very step-mother to this inhospitable bit of territory, the account runs on, upon which the half-starved population—ill-clad, ill-housed, ill-fed, ill-brought up—by hard labour eked out barely enough to keep body and soul together, with the support of the scanty produce of their little patches of rye, buck-

wheat and potatoes, and the milk and flesh of some half-famished cattle, for the most part ruinously pledged to the Jews. That reference indicated a peculiarly sore point in the rural economy of Western and Southern Germany, which led Raiffeisen to become an economic reformer. In this country we have no idea of the pest of remorseless usury which had fastened like a vampire upon the rural population of those parts. Even the gombeenman cannot compare with these hardened bloodsuckers. The poor peasantry have long lain helpless in their grasp, suffering in mute despair the process of gradual extinction. "My enquiries," says Mr. Wolff, "into the system of small holdings in those regions have brought me into personal contact with many of the most representative inhabitants—heads of agricultural departments, judges, parsons, peasants. And from one and all—here, there, and everywhere—have I heard the self-same ever repeated bitter complaint, that the villages are being sucked absolutely dry by the "Jews." Usury laws, police regulations, warnings and monitions have all been tried as a remedy, and tried in vain."



It was this miserable district where every little wretched cottage and tumble-down house was mortgaged and most of the peasants' cattle belong to the Jews, that was severely visited by the famine of 1846-47, and it was the misery of the people that moved Raiffeisen to action. Such were the conditions of the country and of the people, and no more unpromising could have been selected. And the conditions of the problem were no less difficult, viz.: to supply within confidence, courage, the spirit of thrift, of self-help, and of mutual help through association to a peasantry so enfeebled, suspicious and dispirited, and to inspire without such confidence and credit that, upon the guarantee of such a peasantry, external capital could be attracted in sufficient quantities to free the peasants from debt and to supply them with funds for maintenance and production. Such were the problems and the conditions which Raiffeisen encountered. How he solved the one and improved the other is the story of the bravery and wisdom of a man fighting great odds and handicapped by ill-health up to the point of being forced at last to succumb. But his work soon bore fruit, his system has developed by leaps

and bounds. In the last account regarding his little Banks it was estimated that they were reaching no less a number than 5,000 in full operation. Sir F. A. Nicholson, in his admirable investigations regarding these rural Banks with the view of their introduction into the tens of thousands of villages in India, exclaimed with enthusiasm: "Given a Schulze-Delitzsch or a Raiffeisen, and they will bring bread out of stones, credit out of poverty, isolation and ignorance; without them or some similar influence, the problem remains insoluble." A deplorable controversy between the Schulze-Delitzsch and the Raiffeisen officials and leaders was early started and continued to rage from their inception even to the present day—a warfare that has tended to mar the otherwise happy progress of these rival institutions. Both sets of societies have done their good work, and if they differ in certain principles, each may claim a fair share in the promotion of the welfare of those particular classes to whom they went forth to help. The motive actuating each reformer was the same—to give to the poor, struggling workers easy access to capital and credit through self-help and mutual

association, and to rescue them from the clutches of the usurers: to lift up the people, the encouragement of the spirit of thrift, making this a cardinal qualification for membership. When it came, however, to the question of how such desiderata should be brought about the two reformers differed. The goal to be reached was the same, but the methods by which it should be reached were not the same. On the one hand Schulze-Delitzsch aimed at encouraging thrift through the incentive of large dividends and profits, placing the interest of lenders in front of that of borrowers; on the other hand, Raiffeisen placed the interests of the borrowers first, and allowed no dividends. Mr. Wolff, who has made a special study of the two systems, points out how considerable is the difference: the former tend to become joint stock societies in which investments seek high dividends, some societies declaring dividends to members of 30 or even 56 per cent., a result hardly commensurate with anything but usury; the latter preserving intact the co-operative idea of mutual help, and yet eminently successful both in attracting abundant deposits at market interest and in helping bor-

rowers. The interest of all members is that of the borrowers actual or possible, and there is no antagonism between investing and borrowing members. It must be remembered that Raiffeisen aimed directly, not at the mere material benefits of association, but at its moral and educative results; thrift was to be promoted not so much to make a man wealthy as to make him a better moral agent, a better member of society; he regarded mutual help, the bond of Christian charity, as the essential principle, and the necessary result of his system. Schulze-Delitzsch looked more to the material, Raiffeisen to the moral and social results. The former used association to enable the individual to struggle to the front; the latter used the co-operative principle not merely for the individual but as a beneficent method of increasing the common happiness and welfare. This difference is important, since the desire for dividends leads to speculation for the purpose of increasing profits, especially where the directors are rewarded by a percentage. The true co-operative principle worked out in Banks is Signor Luzzatti's idea, as we shall see later, when we come to deal with People's Banks in Italy, is

that "a Bank with fixed dividends on its shares and deposits, all surplus profits going into the reserve, and that when the latter shall be equal to twice the capital the shares are repaid, and all subsequent profits are expended in philanthropic or useful objects"—sentiments and principles with which we are afraid we are not in agreement, as experience shows that philanthropy usually clashes with business and business with philanthropy. The external profit in this case is that derived by the borrowers from the cheap and accessible capital which they borrow for productive or useful purposes; the investors at the same time get a fixed dividend or interest which is usually somewhat above that of State paper. The corollary of these views is, in the Schulze-Delitzsch societies, comparatively large shares with considerable dividends and paid administrations; in the Raiffeisen societies very minute shares—and then only in obedience to the law—and no dividends but an inalienable reserve, and wholly gratuitous administration as regards the clerks.

Schulze-Delitzsch's idea was to establish his banks at any given centre with no fixed idea as to area of operation; the larger the area, according

to his gospel, the better the chance of profitable business. Raiffeisen, on the contrary, lays down—rather arbitrarily, we think, though some of the motives are good—as an *absolute* rule that the area of operation must never exceed that of a village. The difference here, as Sir F. A. Nicholson points out, is radical; in the former societies it is far less possible to know, much less to influence, the members individually, to judge of their character and status, to supervise the employment of the loan; in the latter societies all members are acquainted, the Bank's clientele are its neighbours; it can lend upon character, upon the status, both personal and material, of the borrowers and their sureties. Usury can only be fought hand-to-hand, and it seems likely that only purely local societies can succeed, at least as regards the peasantry.

In the Schulze-Delitzsch societies, which for the most part are in the towns, only short-term loans are granted, three months being the rule with one or two prolongations; in the Raiffeisen societies, which are wholly rural, long loans are the rule, two or three years being the average and ten years the ordinary maximum. The former

societies do not trouble themselves to watch over the use made of the loan, though they satisfy themselves beforehand that it is to be used profitably; the latter consider it essential *to see* that the loan is used productively, and every three months the utilization of the loan is examined by the Committee of Supervision. The former societies require the repayment of their loans in lump, the return being usually speedy, and the result of a particular operation in trade, business or industrial contrast, etc. The latter take their loans, if for more than a very short term, by instalments, per month or per annum. The former, lending only in short loans, have no rule regarding repayment on four weeks' notice; the latter insert, though they hardly use, such a rule to provide against the deterioration of property or the misuse of the loan. The former do an enormous short-term business with artisans, tradesmen, and a proportion of agriculturists; the latter a far smaller but now rapidly increasing business in long loans, almost solely with agriculturists.

Such are the difference between the systems of the two great German reformers. Their object

was the elevation of the struggling poor by means of self and mutual help. Charity held no place in their systems except as the impulse of their initiation. Schulze-Delitzsch devoted himself with such unselfishness to his philanthropic work that, though voted a statue and a subvention, he left his widow in narrow circumstances, while Raiffeisen, who might have pleaded sickness to excuse inaction, used his life so sympathetically and usefully as to win the name of "Father" Raiffeisen throughout the country side. It is personal devotion alone which affects great reforms among the poor and helpless.

Though the greatest care was taken to fix the easiest instalments and dates of repayment, it is found that the laxity and unpunctuality of the peasants is a perpetual difficulty. The absolute necessity of punctuality seems almost beyond their comprehension, and much trouble and tact is called for to avoid, on the one hand, "a sudden severity which would deter them from becoming members and taking loans, and on the other, a lenity which would soon ruin the society." Some thirty years ago an official Commission commented on this fact, and found that the lenity of



the administration on this point encouraged the peasants in their shortcomings. It was noted that in one society with 284 members, that 81 complaints in Court were necessary in three years, of which, however, only 28 had to be followed up, and only in one of these was the surety called on. In the 24 societies in the jurisdiction of the Neuwiß Court, there were 793 suits in three years; of these, 222 resulted in attachments of property; it is said that these were chiefly for small loans in very small villages. At the end of 1885 the amount on loan in 245 societies was £316,289, of which 13 per cent., besides interest, represented expired but unpaid dues; of this, however, two-thirds were accounted for in a single group which had lent not quite two-sevenths of the loans. This was at Coblenz. The group had 33 per cent. of its loans in arrears, and evidently for considerable periods, for the interest in arrears equalled  $4\frac{1}{2}$  per cent. on the total loans outstanding. In another small group 63 per cent. of the expired loans were unpaid. On the other hand many groups had little or nothing outstanding. It is, moreover, to be noted that the statistics were gathered on the 31st of December,

while the period of payment is usually November or frequently 31st of December, hence arrears do not necessarily mean serious arrears, and except in two instances, namely, Coblenz, the interest due was so small as to show that the arrears were of short duration.

It is interesting to note that on this point the Neuwied central directorate allege that the loans are frequently granted imprudently by the local societies, chiefly from a false idea of benevolence or compassion—a motive that would not have been sanctioned or encouraged by the founder—also that bad harvests, especially in many districts caused “much distress and necessary delay.” It appears, too, that certain societies hesitated to press their debtors, fearing lest they should again come into the clutches of the usurers; and not insisting on punctuality they thus encouraged the workers in lax habits; also that the debtors, had they been pressed, having the means of payment, would eventually have paid. It is obvious undue lenience on the one hand and unpunctuality on the other may easily wreck the best system. Mr. Wolff, while admitting, it would seem, that the peasants are unpunctual, considers that the

societies are training them to habits of punctuality by insisting inexorably on payments at date. According to Sir F. A. Nicholson, poverty is too frequently urged as a reason for granting a loan of public money, while the ryot—and not merely the ryot—habitually thinks that the Government is boundlessly rich and can afford to wait, or even to lose an individual trifle. And this, in our opinion, may be said to apply to all those peoples of the world who have been nurtured in the spirit of dependence on the State, forgetting that the wealth of a Government comes always from the wealth of a people.

These Banks do not confine their operations to making loans; they assist in land purchase. Land is largely sold by public auction in Germany as in Italy, the purchaser agreeing to pay by instalments, a practice which enables him to give a higher price from the ease of payment. For these instalments he gives bonds to the auction-seller, who in turn sells them at a discount for ready money to some money-lender or other capitalist. In case the purchaser fails in any one of his instalments he becomes liable to be sold up without mercy, unless he pays an usurious interest on his

arrears. These Banks intervene by taking the place of the money-lender at a moderate discount, but require from the seller a guarantee, usually with personal sureties.

The stimulation of, and assistance to, associations for co-operative production, sale and supply, form another part of their mission. This is done either by grant of advances or by making such association branches, with, however, liability and accounts entirely separate from those of the parent Bank. These are becoming very successful, and supply associations are mentioned as doing business up to £2,000 per annum, the capital for which is originally borrowed from the parent Bank.

It was felt that as the Banks increased they should be "linked in groups for mutual support and for supervision," for it has been found that in starting and working these small local societies the chief difficulty is not only that of their weakness when isolated, but also that of securing capable men residing in the district. Thus arose the group and Union system. Five groups have been established already, embracing probably all the individual societies. Then there is a Central Union for the whole of Germany, to which all

societies may belong. Neuwied, the original of the local groups, may serve as an example. It was founded by Raiffeisen in 1877, with the object of "extending, developing and protecting the local societies." A prominent part of its mission is that of training the peasants in the proper use of credit. Another feature is the teaching of book-keeping and the audit of the accounts. To this end a regular service is organized and the inspectors give free instruction to those societies that desire it. In 1886, 347 inspections were made among 245 societies. Again, another feature recently introduced is the collection and preparation of statistics. ~~But~~ these, it seems, are still very deficient. "A further and more useful development is the purchase of good seed, manure, implements, etc., for the local societies upon demand by the latter; e.g., in 1887 the Neuwied Union alone furnished to its members, at cost price, 15,000 tons of manure and forage, and above 1,600 waggons of coal; in the spring of that year it bought 2,000 tons of nitrate of soda at 88 marks per ton, the price otherwise being 130 marks; hence a large gain to the members; in 1889 this business had increased, and so

again in 1891, a considerable additional business was done." In all, up to 1893 the Union had thus supplied considerably over £500,000 worth of goods. Life assurance, and the assurance against the effects of hail, cattle disease and other frequent disasters figure among the manifold activities of the Central Union.

The Central Union holds a general assembly every year, composed partly of the representatives of the individual societies, partly of delegates from the local groups, which represent the societies belonging to them. Discussion takes place, and a representative syndicate or council is appointed. For business purposes the Union is divided into sections or district Unions, each with the duties of the general Union.

Each local society pays annually 15 shillings as subscription, including the price of a weekly newspaper (*Co-operative Societies Journal*) intended to contain statistics and facts relevant to the working of the societies.

There have been opponents, and chief among them was Schulze-Delitzsch himself, of long-term loans—that is, of from one to ten years—as practised by the Raiffeisen system, on the ground that

there is great risk of bankruptcy, unless borrowing can be done on similar terms. But these societies do not as a rule borrow for long terms. Their funds are for the most part savings or deposits. It is contended that Schulze-Delitzsch and others proved their point only in theory. Anyway, German Savings Banks, with 55 per cent. of their enormous deposits on rural and urban mortgages, are cited as contradictions of the truth of Schulze-Delitzsch's theory; while the Savings Banks experience of Austria, of Italy, and of the United States serve to disprove his objections to the system. Another point claimed and equally convincing is that the sound credit of the societies prevents any lack of lenders. It is made clear that they have more money than they can lend, probably owing to the strictness in lending; that these creditors are largely members; that their savings are left for a long time untouched; that, in fact, the Banks find that they can place a very large proportion of their funds in long-term investments; finally, that long-term loans are all repayable by instalments, so that the money is continually coming in. It is true that the

societies have introduced a rule that repayment of loans of any term can be demanded on four weeks' notice, a facility which is also given to the creditors of the society; but this safeguard is not used in practice except in cases of deteriorations, or of misapplication of the loan, or of serious diminution of the solvency of the borrower from his own extravagance.

Raiffeisen was of opinion that cash credits were unsuitable to the smaller class of peasants. They are, therefore, not granted to any extent, save for the better class. Here we are disposed to differ from him, but, of course, due allowance must be made for his conclusion on the ground that only coin and not credit investments, in deference to the law, can be handled. It is upheld as a stringent rule that, whether the loans are granted on mortgage, pledge or personal security, the administration "is bound to examine every three months the solvency of the parties, the conditions of the property mortgaged, and the use made of the loan"; the habits of the borrowers are even taken into account.

The stringent demand of repayment at any time on four weeks' notice is a clause in the rules



that has been much, and in some cases severely, criticised. The advisability of this clause has been much debated. But by its defenders it is held to be necessary where property is being allowed to deteriorate, or the borrower is evidently becoming insolvent through extravagance, or where he has misapplied money lent for a particular purpose. In the first and third cases the rule is universal in land credit societies, and is especially necessary as a matter of contract where the law, as in India—as pointed out by Nicholson—does not make the mortgagor responsible for deterioration of the property mortgaged. He holds, and we think rightly, that the clause is indefensible where the demand is necessitated by the position of the Bank, and that it is the duty of the Bank so to arrange its affairs as not to require at call loans which have been laid out perhaps in improvements yielding slow profits. Such a clause must produce a sense of uncertainty, and might be the means of harassing the debtor disagreeable to the directorate.

The loans are usually small; some are even for only 10 or 20 shillings. Five pounds to £25 represent the largest number of loans. The

average, it is stated, is about £15, or less than half the average of the Schulze-Delitzsch societies.

The general rate of interest is 5 per cent., with a commission which raises it to 5 or 6 per cent. It is usual now to take this commission in a single payment on the day the loan is granted. It is usually 1 per cent. of the total for a loan of one year; it aggregates 2 per cent. for loans up to five years, and 3 per cent. for those between five and ten years. This commission pays the expenses of administration.

Le Barbier makes some interesting points regarding the general result of these groups. He finds that statistics of members and other items are incomplete; each society is at starting "an isolated rural unit, and a very small and unbusinesslike unit." It then joins a group and is gradually educated in business matters. Its returns being imperfect or nil, the group statistics are incomplete. The rapid increase of late years has apparently outrun the organizing capacity of the group syndicate. But this, it seems, is all being set right. The older Schulze-Delitzsch organizations, though for the most part of an urban character, are faced with like difficul-

ties. It seems that in 1890 only 576 associations had sent in their accounts, and these showed a movement of affairs of about £4,375,000. For the group of Neuwied—the original centre of operations—figures for 1899 are as follows: “245 associations sent in accounts, these had 24,466 members, or 100 each; their assets, including outstanding loans, were £501,900; their debts, including etc., £495,200; they had lent during the year £175,000, of which £30,400 were on account-current. Similar figures have not been obtained complete for later years, but loans largely increased, as will be seen from the figures given above for 576 associations of this and other groups; e.g., in 1887, loans by the above 245 associations were £50,200 in excess of 1885, while the assets of 364 associations in 1889 were £859,000, as against £501,900 for 245 associations in 1885.” These statistics are not to be compared, of course, to those of the Schulze-Delitzsch Banks. But then it must be taken into account that they came into existence later. Their members are entirely of the farming class and very poor, and only need small loans. Also it must not be forgotten that the loans are not for three

months as a rule, but for several years. While the recorded Schulze-Delitzsch figures show an annual turnover of perhaps £80,000,000 owing to the same funds being turned over three and four times per annum, the Raiffeisen Banks have only a small movement, since their capital only returns to them every two or three years; that the Banks closely examine the object of the loan, which must be usefully or productively employed; they do not lend unless for a good purpose; reckless borrowing is checked rather than encouraged.

It will be seen that the loans granted are small from the following figures:—"In 1887 in three societies taken at random, 200 loans were granted for £3,094, or £15 10s. each; of these 35 were below £5, and averaged about £2; 139 were below £25, and averaged £9 8s.; only 26 were above £25, and none were above £112 10s." It is clear, as is pointed out, that these societies have the true peasantry as their clientele. The number of members in the various societies is now known; statistics are wholly imperfect, and various writers include different classes of societies. In 245 societies of the Neuwied Union there were in 1885 24,466 members; at this average there would

in 2,000 societies be more than 200,000 members ; in 1889 in 364 societies of the same Union there were 33,160. The proportion to population is equally unknown ; in 30 societies taken at random there appear 5,207 members (173 each) in a population of 55,450, or nearly one in ten ; as each member represents a household, it seems that half the population is affected directly by these societies. These, however, are all in the Rhine Provinces, where they originated, and where they are far more numerous than elsewhere. For Würtemberg the statistics contained in the Union report of August, 1892, for the year 1891 are as follows : The number of societies was 477 with 37,429 members, being an increase of 118 societies and 5,959 members over the previous year ; the small size of the societies, viz., 78 members each, is noteworthy. Of these 358 reported business to the amount of £1,473,984, assets as £517,923, liabilities as £414,655, profits as £3,490, reserve as £10,926, and share capital as £11,883 ; this was an increase of about 30 per cent. over the figures of the previous year. The Savings Banks attached to them were doing a good business, while the amounts devoted to the purchase of manure, compressed fodder, seeds and

fruit (for the manufacture of cider) were nearly double those of the previous year. Audit was carried out by the Union in respect of the management and accounts of 266 societies in the usual fashion, viz., by the transmission of the books to the auditor and his subsequent visit to the society's office; the cost was £320, to which the State contributed £180. Apparently a good deal of help, not merely pecuniary, is contributed by the Government in the Public and Agricultural Departments. It is considered that the Union is gradually raising the tone of the loan societies, strengthening their position, improving their credit and developing their useful activity. In proportion as the number joining the Union increases, so does the conviction of their community of interests. The development of this feeling is one of the highest aims of the Union.

Mr. Wolff quotes a Rhenish Bank as an example: "Efferen is seven miles from Cologne; it has 1,600 inhabitants and a society of 121 members dating from 1880. On December 31st, 1887, the members held £992 in existing loans, its annual issue of loans being about £390. The Savings Bank attached to it, which chiefly sup-

plied its funds, held on that date £1,992 in deposits under 238 accounts; in 1886 it had added a penny bank, and in eighteen months it had issued against petty savings 333 cards and 4,584 pfennig tokens, after the fashion of the English postal Savings Banks with their accumulation cards for penny stamps."

There have been no actual bankruptcies. It is significant, and constitutes no slight tribute to the merits of the system, that since these institutions were started in the early days some were wound up, but no case of bankruptcy is recorded. Naturally there are small losses in some of the Banks, but in all cases they are covered by the reserve, and in no case has any general contribution been required from the members under the principle of solidarity. This, at least, is the repeated assertion of Raiffeisen and his followers.

The instructions have been summed up as "autonomous, agricultural, local, with a membership and administration solely rural and of the village where the loan is situated." They have "an enormous educational effect, especially when the particular principles of the system are considered. The result to the members is, in fact, marvellous; usurers have been ousted, and the

peasants given a new chance with new hopes; men are tempted to save, taught to use savings productively; idle hoards are gathered in and used profitably; the spirit of association is developed, habits of business taught, new ideas inculcated, and new methods of economic and social progress encouraged and developed. The results go further: owing to the necessity of grouping the societies, central associations have sprung up, and these are performing most important duties and developing on various lines; they provide manures, seeds, implements, etc., of good quality and at low rates; an insurance department to insure against the effects of hail, cattle disease, etc., is being formed; there are special associations for dairying, viticulture, etc.”

Such, then, was the work of Raiffeisen, and it still continues to bear fruit and shows promise of bearing still greater.\* That he was handicapped,

\* In Germany the Raiffeisen Union proper at the close of 1908 was composed of 5,047 Societies, of these some 4,100 Societies made a return at the end of 1907. Their membership stood at 406,000; their assets amounted to £24,550,000, their liabilities to £100,000 short of that sum. Whilst their collective share capital only totalled £181,252, they could boast a deposit capital of £19,500,000, (of which £7,300,000 had been received during the year), a reserve fund of £685,000 and cash balances due to members of over £900,000. The returns showed that the amount advanced by them now reached nearly eighteen and three quarters millions sterling, and that their current account receipts amounted to five millions.



that the soil in which he laboured appeared next to being barren, are facts in themselves of sufficient weight to demonstrate his nobility of purpose, his untiring energy, and his benevolent intent. But when it is considered that he was a great physical sufferer and refused to act upon all the medical advice tendered him to abandon his public work, it is not easy to exaggerate the true benefaction this reformer practised. When he died, however, the people, for whom he sacrificed his life, gathered from all parts of the Empire, and in the impressive public funeral they accorded him bore eloquent testimony to the esteem and affection in which they held him. So far as we are aware, there are no monuments raised to his memory. But there is a living memento to him in the hearts of the poor peasantry for whom he so nobly slaved. He is remembered still as *Father Raiffeisen*.

## CHAPTER V.

## POPULAR BANKS IN ITALY.

**W**E now come to the consideration of the work of three remarkable men—all the offsprings of Schulze-Delitzsch's inspiration—who by their unflagging activities and unquenchable enthusiasm have done wonders for Italy in the direction of popular banking—a country wherein anti-economic legislation has for so long a period reigned supreme. We refer, of course, to the labours of Dr. Wollemborg, Signor Luzzatti, and Signor Francisco Vigano.

It was at Loreggia, a village of some three thousand souls, all concerned in farming operations. Among a community of peasants, all poor and struggling and all more or less the victims, as he himself relates, of a "frightful and shameless usury," as well as to the absenteeism of the landlords, Dr. Wollemborg began his work. He has related how in his village, it was a common occurrence for the workers to pay one lire per month for every twenty, or 60 per cent. per

annum, to which was regularly added a dinner or collation every Sunday, gratuitous labour and other "corvees." The peasants were at the mercy of the money-lenders, and were moreover compelled to buy inferior goods at ruinously high credit prices. A man of high culture and powers of close observation, with a deep interest in social problems, Dr. Wollemborg had acquired a knowledge of the reforms achieved abroad, particularly by Raiffeisen and Schulze-Delitzsch in Germany. Thus it came about that in 1883, when only 24 years of age, he attempted a similar foundation in Loreggia. It was a task fraught with the utmost difficulty; in his own words, "the novelty of the proposals, the nature of the locality, the class of persons to be persuaded, distrust, jealousy, factions of all sorts, were obstacles which had to be surmounted." He also dwells upon the isolation of the peasants, their misery and apathy, their ignorance and their mistrust of the landlords; for the peasants were mostly tenants and not proprietors. It was a dreary outlook. Dr. Wollemborg, however, coped with the situation and conquered it, unaided and alone. With much eloquence and effort he

gathered thirty-two persons together, among whom were twelve very small peasant proprietors. But things remained the same for a long time: the nascent society had to prove its position and only then would it be imitated. This has now been done; the societies are rapidly spreading, and the latest reports—those for last year, 1910—shew that the federated organisations now run into hundreds. So similar are these to the German societies that they need no description. The differences are unimportant: the German law insists upon a share capital, however small the shares may be, whereas the Italian societies have none; the German societies are willing to receive external aid, “even in the form of Government subventions, however occasional.” No such aid, however, is given in Italy; the Italian Casse, while agreeing with the Raiffeisen system in allowing long-term loans, even for several years, do so by three months’ bills, periodically renewed. This method it is considered enables the Casse to recover its money in case of being in sore need of funds. Punctual payment of the interest is also evinced, as renewal is not allowed if the interest is not paid. The Casse is thereby

in a position to insure the use of its loans as indicated, and non-renewal of loans constitutes the penalty. The German plan is simply a long-term loan repayable by instalments. The German long-term method is not generally practised by the Italian societies, but it is obviously easy to grant it on the three months' system by demanding a small part-payment at each renewal on penalty of refusal to renew. Unlike the Raiffeisen associations which grant no loans without an additional guarantee—a surety, or mortgage, or a pledge—in Italy loans within two years are allowed up to a certain amount on the simple security of the borrower. Though in both Italy and Germany the aid of the priest is resorted to, the Italian Casse are careful to avoid any religious bias in their undertakings. They are happily simply run on business lines.

One wonders, as one studies the whole progress of the system, that People's Banks should have succeeded, as they assuredly have, in a country like Italy. This has been commented upon by many writers, as though it were a miracle. But surely the very anti-economic conditions justify the response among the maltreated and

credit-starved people. Imaginative and full of aspirations, the movement has represented the one chance of their regeneration. Still in view of their poverty, their ignorance, their superstitions and sceptical outlook on almost all things, the success of their novel institutions could certainly not have been compassed without the initiative and enterprise of the three reformers who introduced them. Signor Francisco Vigano by his books, speeches and organizing power did much to popularize a knowledge of popular thrift and credit. Signor Luzzatti, a young Professor of Political Economy, inspired by his studies of Schulze-Delitzsch as expounded in his famous movement, himself wrote a work, now classical, on "Popular Banks and the Diffusion of Credit," and, at 23 years of age, founded in 1865 the Popular Bank of Milan, an enterprise which began with only £28, Luzzatti himself being, as he says, the "millionaire" shareholder with a subscription of £4. It is amazing to think that this Bank has now 25,000 members, a paid-up capital of £400,000, a reserve fund of close on £200,000, ordinary deposits amounting to £5,200,000, savings amounting to nearly £1,500,000, and a

turnover which in 1909 amounted to £108,000,000. It lent out during last year some  $5\frac{3}{4}$  millions sterling, and made a net profit of £61,244, and paid a dividend of 7.20 lire on every 50-lire share. But this, according to accounts, was merely his first essay. Following the example of his predecessor, Schulze-Delitzsch, he apostolized the movement, lectured, wrote, energized and inspired the development everywhere, so that in 1906 there were 832 Popular Banks, of which the statistics for 710 were: Paid-up capital, £3,600,000; holdings in "deposits, cash balances and bonds," £29,500,000; holdings in acceptances, £18,213,652, and other advances of over £3,000,000. Even in the South of Italy, where the population is most isolated, ignorant, suspicious and averse to change, the movement has largely spread, and above 300 banks have been started in that region. Then, again, as has been pointed out by commentators, the whole system of "People's Banks" were entirely new to these people who in money matters were accustomed to little else than the driving, draining methods of the usurers. And all was achieved by the private initiative and enterprise of a handful of ardent

workers. The Government did nothing to encourage the movement, and it was only in the Eighties that these Banks were legally recognised at all, when they were recognised and brought under the Code of Commerce. The only Governmental concession made to them indeed has been the repeal of the stamp duty payable on their Memoranda of Association and on their reception and dismissal of members. But they still bear the burdens—and heavy ones they are, in common with all other Italian institutions, of high taxes amounting (exclusive of stamp duties falling on clients) to at least 13 per cent. of their gross profits, and to about half the total cost of their management!

The Bank of Naples and Sicily, from all accounts, has exercised the greatest influence in encouraging these Banks amongst the huge agricultural populations of the South, all usury-ridden and misgoverned. So similar are the methods of these to the German institutions from which they sprang that there is no need here to detail them. It is only necessary to cull certain points from an English Parliamentary paper relating to their working.



Even as the Credit Unions founded in Germany by Schulze-Delitzsch, the Italian Co-operative People's Banks are simply associations through the channels of which artisans, peasants, small tradesmen, and, in fact, all classes of persons who, though honest and intelligent, could not otherwise command credit without submitting to every form of usury, combine to establish a local self-governing institution of credit to meet their needs.

Self-help is their ruling principle—the engine for developing habits of prudence and thrift in their members, by supplying them with a profitable means of investment for their savings, and to compete successfully in supplanting usury by the facilities offered for obtaining loans and advances of money at a fair rate of interest. The profit-making incentive is ensured by the fact that the members are at the same time the proprietors of the Bank, and its clients have a direct interest in its making a profit, and a sufficient inducement to keep the rate of interest charged on loans and advances within proper limits. The pecuniary interest of each member in the Bank, though the shares subscribed by him and his contribution to

the reserve fund, offer a *material* guarantee for the punctual repayment of his debts to the Bank, and a *moral* guarantee is created by the restrictions imposed upon the admission of new members, and the sale or transfer of shares, which must be submitted to the Board of Directors for approval.

In connection with this subject, Signor Luzzatti observes that "in an ordinary Joint Stock company the member's money is the main object considered, but in Co-operative Credit Association the person of the shareholder is of much greater importance than the share itself, since in the latter society the moral worth of the persons who compose it, united as they are for the purpose of obtaining, by means of co-operation, the credit which they would not find in other institutions, supplements and completes the material worth of the shares, which are accumulated gradually and even in some cases by weekly instalments of a few centimes."

In order to secure the efficiency of such a moral guarantee, it is most desirable that the members of the association should be well known to each other, especially during the early period of its

existence, and that the Bank authorities should maintain a strict supervision over the granting of loans and advances.

The area in which the operations of the Bank are carried on must therefore not be too extensive, so that its members may have frequent opportunities of intercourse with it and with one another, and be able to take an active part in its management without personal inconvenience, and Signor Luzzatti accordingly recommends the conversion of branches of existing Banks into independent institutions, whenever their condition is sufficiently flourishing to justify such a course, as well as the foundation in large centres of population of small independent Banks, side by side with those already established.

The Banks are strictly business concerns, and will have nothing to do either with benevolent grants or with benevolent loans, except as regards the "loans of honour" which are sometimes granted from a small special fund. Moreover in the interests of the Bank, but more especially in those of its clients, no loan is granted that is not for a distinctly productive purpose, using the word "productive" in a large sense so as to include

loans serving all useful purposes, such as the extinction of usurious debts, the rehabilitation of a family or its house, etc. And while Luzzatti recognises that money is frequently required for unproductive needs, he considers that the two purposes should be carefully kept apart and that, while the Popular Banks should lend themselves to production, provident societies (*societes de secours mutuel*) should supply other needs.

An extremely interesting account of co-operation is set forth in Mr. Bolton King and Mr. Thomas Okey's "Italy of To-day," in which they state that the co-operative movement, though young in Italy, is, according to them, very full of life and growth. In mere figures, indeed, it shows small beside the fellow movement in England, though Italian Savings Banks (which must rank there as a form of co-operation) are probably unrivalled, and we have nothing corresponding to their People's Bank. According to their interesting account of the various co-operative movements, a most remarkable solidarity seems to have sprung up and to be moreover maintained among these institutions. There appear to be many differences. Co-operation in

the Peninsula seems to cover a much wider ground. People's Banks and Savings Banks, Co-operative Societies and Friendly Societies, are more or less interlinked. The business of the People's Banks is that of the Savings Banks, and that of the Savings Banks that of the People's Banks, while the Friendly Societies occasionally lend small sums on much the same conditions as many of the Savings Banks and People's Banks. The Agricultural Syndicates and Friendly Societies are besides financed by the Banks. Co-operative Stores often run hand in hand with Friendly Societies. They and the Co-operative Societies sometimes constitute informal Trade Unions. Each kind of organization gives assistance to productive Co-operative Societies; the People's Bank at Imola advanced from £20,000 in five years, the Savings Banks at Ravenna advanced over £30,000 in ten years. There is sometimes, no doubt, a little overlapping; but there is an absence of jealousy and a strong common desire to assist one another that make the Co-operative and Thrift movement a very powerful and united whole. All this constitutes a pleasant contrast to the controversial element in

the clashing of the two German systems—the Schulze-Delitzsch and the Raiffeisen, and suggest, too, even so ill-governed a people as the Italians are ripe for the highest form of reform. It is also made clear by their methods how ready they are to serve one another and their district in general.

The munificence displayed by some of these societies is quite remarkable. The Savings Banks give princely donations to charity and public purposes, according to the account recorded by these authors. The Savings Bank at Vercelli gives a premium of £4,000 to every textile mill started in the neighbourhood that employs 500 hands. That of Milan has a warehouse, where silk goods are stored at an annual value of £3,000,000, and makes advances on their value, thus enabling spinners to hold back for a favourable market. That of Venice gives premiums for the construction of sanitary workmen's dwellings; others make loans at low rates for the same purpose. The Savings Bank at Bologna has lent considerable sums for agricultural improvement, has bought mountain land to be reafforested, has helped to plant a nursery of American vine-stocks. The

People's Bank at Padua gives £270 a year in scholarships. The large Co-operative Banks have formed a Life Insurance Society, in which some of them insure their employees, and which has issued policies to the value of nearly £900,000. Without their assistance the great machinery of Agricultural Syndicates and Village Banks and agricultural teaching could never have grown up.

It is also encouraging to note that they aim at decentralization. There is less leaning on the State than with us or in France. The Italian Post Office Savings Bank, for example, does a small business compared with that of the voluntary societies. Only a limited number of Co-operative and Friendly Societies and Village Banks have registered themselves owing largely to the imperfection of the Italian law. It is a subject for much wonder that the fussy officialism by which these Banks have been hemmed in that they have done so well. Application for registration has to be made to the local Court of Justice, and the vagueness of the law has allowed prejudiced judges to insist on the insertion of unreasonable rules, or refuse registration on arbitrary grounds. But the decentralization goes further than this. There is

little formal combination among the local societies. The attempts to form a wholesale Co-operative Store or a central agency for People's Banks (with or without the Friendly and Co-operative Societies) have failed. There are no large Friendly Societies, hardly any Amalgamated Trade Unions, but a multitude of small societies, confined to a single district or a single trade in that district. The town of Parma alone, with a population of 50,000, has 25 Friendly Societies. It is very rarely that any of them act outside a limited area. Even the great Milanese Savings Bank has not advanced beyond Lombardy. One or two Co-operative Banks administer the *credito fondiario* over a considerable portion of the country. But with this exception the Central Catholic Bank at Parma and the Federation of Agricultural Syndicates are the only co-operative institutions that operate beyond the limits of one of the great divisions of the country. There are, indeed, national congresses of People's Banks and Co-operative Societies, and common agencies for propagandist or defensive purposes; but there is no financial centralization. The system has its



weaknesses perhaps, but it corresponds to the strong local sentiment of the country, and it more than compensates for any drawbacks by its freshness and spontaneity and local usefulness.

It is remarkable to reflect that before 1863 not a sign of this great movement was visible, except a few of what Mr. Bolton King and Mr. Thomas Okey call "Friendly Societies and Savings Banks and a handful of Co-operative Societies." In 1898 there were no less than 594 Banks, with 381,000 members, with a capital and reserve fund of over £4,000,000, a business in the year of £33,000,000, and over £270,000 of profits. The Banca Popolare of Bologna alone does a yearly business of nearly £3,000,000. All this demonstrates the extreme needs of all these useful institutions, and serves to explain what the sufferings of the workers must have been when deprived of their aid. The Savings Banks have grown even more rapidly. "At the end of 1899 they numbered 404, and with 1,630,000 depositors, over £57,000,000 in deposits, and a capital fund of about £8,000,000, while the Post Office Savings Bank, founded in 1876, has 3,664,000 depositors and £25,000,000 deposits. The great Milanese

*Cassa di risparmio*, with its 118 branches scattered throughout Lombardy, the premier Savings Bank of Italy and probably of the world, has 575,000 depositors, £23,900,000 deposits, and nearly £17,000,000 invested in public securities. That of Bologna has £1,540,000 in deposits, that of Padua £854,000, that of Piacenza £820,000, that of Parma £690,000. The savings invested in Savings Banks, People's Banks, and Post Office Banks amount in all to £100,000,000, or £3 2s. 6d. per head of the population. Meanwhile the Friendly Societies have grown yet more in numbers, though their finances are comparatively humble. There are no later statistics than 1894, but it is probable that there are 8,000 of them, with 1,000,000 members and £4,000,000 of funds. There are over 900 Village Banks, about 1,260 Co-operative Stores, at least 100 Productive Societies, over 500 Co-operative Labour Societies, 400 or 500 Co-operative Dairies, nearly 200 Agricultural Syndicates. It is a mighty agency for good, and if United Italy had created nought else, it were worth the struggle to attain it."

Savings Banks and People's Banks in Italy, according to these same observers, seem to differ

from one another slightly. The People's Banks are on a more "democratic basis," the Committee of Management being elected by the shareholders, while in the Savings Banks they are nominated by the local Councils or other public bodies. The People's Banks employ the greater part of their capital in bill-discounting and other banking operations, mainly among their own members; the Savings Banks, as a rule, invest most of their funds in securities and mortgages, and devote only a minor portion to banking business. The Savings Banks, outside their capital funds coming mainly from endowments, obtain most of their money from deposits. The People's Banks have, in addition to deposits, a share capital, and get a large proportion of their working capital from current accounts. But both alike are based on the broad principles that, while in the larger or smaller degree they engage in ordinary banking operations, they are Banks conducted, not for private profit, but for public benefit; that they take small savings, and employ their profits either in the interest of the small shareholders or in works of public utility. They are alike, too, in the great skill in which their business is generally

done. " In 1899 the Savings Banks had losses of £1,200 only as against profits of £171,000; in 1898 the People's Banks had profits exceeding £280,000 and losses of £7,000. The Milan People's Bank has lost on its loan and discount business only .027 per cent. of its advances; the Parma Savings Bank, which employs a large part of its capital in bill-discounting, has lost less than .005 per cent. In the financial crisis of 1889 to 1893, while the private banks were in painful straits, deposits poured into the coffers of the Savings Banks and the best People's Banks. And the public confidence in them is proved by the fact that the Government has made some of them its agency in administering the *credito fondiario* and the Old Age Pension Fund. It is true on the other hand, that the unsound Banks in the South collapsed in 1889, and gave their quatum to the bankruptcy and misery that followed. But since then the movement has gone back to its first and healthier lines; and though there are occasional complaints that some of the larger People's Banks are slow and old-fashioned in their methods, and that their shareholders do not interest themselves sufficiently in the management, it is probable that

the great majority both of People's Banks and Savings Banks are admirably directed.

Banks worked on these principles<sup>o</sup> are studded over the whole of Northern Italy (though to a less degree in Piedmont) and parts of the Centre and South, bringing easy credit within the reach of men whom the private Banks neglected and distrusted—the lower-middle class of small manufacturers and tradesmen—taking charge of their savings, and diverting them into productive channels, often giving generous assistance by loans to Productive Co-operative Societies, Village Banks, Co-operative Dairies, which could not have come into life without their help. But it is often charged against them that they neither aid the smaller farmer nor the artisan, that they have become capitalistic in their character, seeking big dividends, charging too high rates for their discount, glad rather than otherwise that the working man does not come to their doors. There is some truth in the charge, but it requires very considerable qualification. Figures prove that the Banks cater to a large extent to the small peasant, and even in some degree to the artisan and labourer. The shares in the People's Banks are generally as low

as from 4s. to £1; the average holding is under £8, and tends to decrease. Twenty-four per cent. of their shareholders are small tradesmen, and 9 per cent. are artisans. The *Banca popolare di credito* of Bologna, out of 4,967 shareholders, has 933 small proprietors or farmers and 278 working men. The average deposits in the Savings Banks are rather high, but at Parma half are under £4, and the Bank has a special class of 5,000 small deposits which average £1 8s. At the Imola Savings Bank half the deposits are under £2, and its special class, confined to the poorer working classes, has 2,070 depositors, with an average deposit of £1 7s., to which the Bank adds a small yearly bonus. At the Cremona People's Bank one-third of the deposits are less than £4; at the *Banca co-operativa per gli operai* at Bologna the average of all deposits is under £6. The Savings Bank at Bologna has insured over 4,000, chiefly working men and servants, for Old Age Pensions, and adds a bonus of about 10s. a year to each. So, too, the mass of loans and discounts is for small sums; in the People's Banks the average is for £15, and tends to decrease, and a large proportion are for much smaller amounts. At the Milan

*Banca popolare* one-seventh of the discounts are for sums under £8; the People's Bank at Padua has lent £120,000 to working men; the *Banca popolare di credito* at Bologna makes 23 per cent. of its advances to them; at the *Banca co-operativa per gli operai* at the same place the loans and discounts average a little over £5; and the Bank has dealings with most of the working families in the city. At the Piacenza Savings Bank two-thirds of the discounts are for sums under £8; at the Parma Savings Bank the average is £20, and very few exceed £40. At all events, as regards the peasant, the charge of neglect has slender foundation. It is probable that the Banks do not reach the very poorest, but they do reach a large mass of small proprietors and small farmers. A quarter of the members of the People's Banks come from this class, and over 4 per cent. are agricultural labourers. In the agricultural districts, as in the federated Banks of Pieve di Soligo, more than half of the members are small peasants.

Here are some interesting and instructive figures and facts:—"The *Banca popolare* of

Bologna has in twenty years advanced £1,160,000 to this class; the Cremona People's Bank in 1897 advanced them £143,000 out of a total of loans and discounts of nearly £400,000; the Piacenza Savings Bank makes a special class of advances to them at 2 per cent., and in 1899 lent in this way nearly £8,000; the little Savings Bank of Citta di Castello devotes £1,000 to agricultural loans. Several Banks discount the credits of the local Agricultural Syndicates and Village Banks at preferential rates; thus in 1899 the Padua Savings Bank discounted nearly £7,000 to 2,240 persons, of whom 1,190 were farmers and 445 were artisans and labourers, seven-eighths of the advances being expended on agricultural purposes, chiefly the purchase of animals, manure and sulphur. Here and there a People's Bank is purely agricultural, as that of Sansevero in the province of Foggia, which has created a flourishing community of small proprietors by enabling them to break up worthless land and plant it with vines."

Mr. Bolton King and Mr. Okey call attention to the fact that these People's Banks might do even

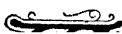



greater work among the poor. The shopkeepers' influence is seen, they say, in their dislike to assist Distributive Co-operative Societies; and by "making saving a condition for credit, they have shut out numbers of workmen, who have no security to offer but their strength and skill. The Italian People's Banks have adopted the principle of limited liability; and this, though it has enabled them to attract the middle classes, has shut out workmen who, as the Village Banks have proved, might have safely been admitted had the credit value of their labour-force been realised. A certain effort has been made to reach them by means of a special class of "loans of honour" (*prestito sull'onore*) to men who have no security to offer. These loans are made often free or at nominal rates of interest, generally for sums below £8, though they sometimes range up to £16 or £20. They are often worked through the Friendly Societies, and are generally confined to their members. Here are some interesting points:—  
"In 1898, 49 People's Banks and a few Savings Banks had a system at work, though the total sum advanced was probably under £30,000. As a rule, the loans seem to be punctually repaid; at

Cremona only 3 per cent. has been lost, and at the Bologna *Banca popolare di credito* 3.3 per cent.; at the Piacenza Savings Banks in 1899 less than £20 were lost on £2,280; the People's Bank of Noventa Vicentina has lent £1,600 absolutely without loss; one small Catholic Savings Bank in an agricultural town near Bergamo has in fifteen years lent £6,000 with a loss of £2 only. But in the case of the richer banks it is sometimes found that the borrowers think that the Bank can afford to lose, and will not repay." At the best, it is rather a charity to tide over a difficulty than a step to the labourer's progress. Signor Luzzatti is probably right in his contention that the needs of the poor are best met by a special kind of Bank. We have seen what the Village Banks are doing for the poorer peasants, and already there are over 1,000 *Casse di prestito*, generally started by Friendly Societies or the Catholics, which are introducing the same system into the towns.

## CHAPTER VI.

## POPULAR BANKS IN OTHER CONTINENTAL STATES.

 E now come to deal with the still further widespread influence which the  initiative, enterprise and energy of the two reformers, Schulze-Delitzsch and Raiffeisen, exercised in other regions than the Peninsula—some of the most unlooked-for, wherein bureaucratic despotism and official degeneracy have for centuries reigned supreme—Russia and Spain. That People's Banks should be transplanted successfully in either of these countries, might well surprise the most sanguine spirits, and the story of their growth is replete with instruction. That when, after a group of capitalists had clubbed together in order to found these credit-institutions for the benefit of the usury-ridden serfs, the formalities of officialdom at St. Petersburg kept them back a whole generation will not astonish those acquainted with the methods of government in the Empire of the Czar. Still the work was done, though done tardily, and its

success constitutes a remarkable tribute to those concerned and to the magical influence capital and credit, when rightfully directed, can exercise even on the most primitive districts and on those who are among the most unfortunate and least enlightened of folk. As we pointed out in an earlier chapter, the emancipation of the serfs and the steps taken by the Russian Government to confer upon each a free gift of the land, led to the creation of a huge number of small farmers. But that vital question—the Capital and Credit question—had been left unconsidered, and these poor untutored creatures found themselves more than ever in the clutches of the Jews. The best they could do was to cultivate the land out of such earnings as they could obtain from the larger proprietors. The rates of interest exacted by the village usurers ranged from 60 to 100 per cent. per annum, and there was naturally a great need for institutions that could supply capital on reasonable terms in cases where it was temporarily required for productive uses, or to meet exceptional difficulties. There had existed for some generations a kind of inchoate form of co-operation among them, but in the most primitive forms.

It had, however, done certain work. It had shown them in some vague way at least the spirit of association among both the peasants and the labourers of the towns and cities. It is no wonder then that relief should have been looked for in this direction.

The system of People's Banks was in the first instance introduced by a young proprietor of the province of Kostroma, Sviatoslaw Louguinine. He had been to Berlin to study with Schulze-Delitzsch the secrets of the system established in Germany under his guidance. On his return to his estate he determined to start a Bank upon the same general plan, but adapted to the different conditions of his own poverty-stricken district. He organised an association numbering 21 members, including the priests of the churches at the village of Ragestwenskoe, the employés connected with the management of his own estate, and a few of the better class of peasants. He lent it the small sum of 1,000 roubles with which to make a start. This was in 1864. But as People's Banks were quite alien to Russia and Russian nations, it would be found necessary to submit the rules and regulations of this little association to

the Imperial Council at St. Petersburg. But, alas, so long a time went by before the autocratic approval was received that the Bank did not begin operations until two years later. Its founder by that time was dead. But fortunately the plans and directions for the new Bank had been prepared and preserved. For five years it was worked under the supervision of the men who had advanced it the money for its initial operations. This control was gradually withdrawn as the members of the society became familiar with the mechanism and working of the Bank, and in 1886, twenty years after it began business, the society had 300 members and its transactions amounted to about \$20,000 a year, and in view of the fact that this Bank was situated in an isolated region whose inhabitants were for the most part wood-choppers, this was a considerable sum. In 1868 the operations of this society began to attract attention, and in 1869 several similar Banks were started in the district of Novgorod through the aid of funds voted for the purpose of the zemstvo of that Government.

Next we learn that in 1871 the Agricultural Society of Moscow appointed a committee to

enquire into the value of these institutions, and to prepare rules and regulations with the view to conducting a general model for Co-operative Banks, and the following year measures were adopted at St. Petersburg to promote the organization of these institutions, the Ministry of Finance authorizing the Imperial Bank to open a credit with them and contributing 5,000 roubles to aid in extending the movement. But of the credit opened by the Imperial Bank the promoters, for some reason, did not avail themselves as they might have done. From the beginning of 1875 to 1880, 202 associations borrowed from the Bank and its branches 5,014,000 roubles, of which 4,532,000 had been repaid in 1880, and nearly 500,000 remained due, this indebtedness being distributed among 127 institutions.

Two men, both members of a committee appointed for that purpose, Messrs. Hitrovo and Von der Flith, invented a very simple and practical plan of book-keeping, which was taken as a guide for all the Co-operative Banks. This committee became the medium of communication between the Banks and the Ministry of Finance at St. Petersburg, its members occasionally visiting

local institutions to give necessary explanations and correct errors or misunderstandings. By 1884 the rules and regulations of 1,525 Co-operative Banks had received the sanction of the Imperial Government. Of this number 727 had presented annual reports to the Central Committee, and from these reports it appeared that 5,626,000 roubles had been paid in by the members; that there was a reserve capital of 620,000 roubles; that the deposits and sums borrowed amounted together to 7,300,000 roubles; and that the loans to members during the same year amounted to more than 22,000,000 roubles. "In nearly all cases the sums advanced to members have been repaid punctually, but in cases where the borrowers refuse to pay, the Banks have no recourse but to appeal to the local communal authorities, which sometimes failed to enforce their claims. It is interesting to note that the example of successful repudiation on the part of one debtor seems sometimes to have proved contagious, producing an almost general dishonesty. But altogether the losses have been inconsiderable. The results shown by the annual report for one year are cited as a fair example of



the general experience. From this report it may be seen that only one loan in fourteen was left unpaid to maturity; that of the total amount loaned only one rouble in 6,000 was paid by indorsers; that one rouble out of every 1,800 was obtained by distraint; and that only one rouble in 2,300 was lost. The same thing applied to the Banks themselves and their creditors. As regards the loans which they obtained from the Imperial Bank, it is stated, as the result of a pretty extended experience, that out of every 100 roubles borrowed by the associations, the amount not paid when due was about two roubles, and the amount finally lost no more than 60 kopecks, or six-tenths of a rouble; and as the loans were made at 7 per cent. there remained an interest of 6.4 per cent. after deducting losses. Private lenders, we are told, have had a like favourable experience in their dealings with these Banks, and regard them with ever-growing confidence—a fact which must result to their advantage in the form of decreasing rates of interest. An important point, too, is the fact that while the Banks started almost exclusively with money advanced by provincial authorities, their operations are now mainly

carried on by money obtained from private lenders, coupled, of course, with their own capital, composed of the payments from their members.

Here again are some significant figures. "The total amount loaned by the Banks to their members during the decade from 1871 to 1880, inclusive, is stated at about 60,000,000 roubles,\* or, say, about £6,000,000. For this sum received about 3,000,000 roubles, say, £300,000 in interest, of which one-third was returned to the members in the form of profits, the net interest payments being estimated at about 4 per cent." Mr. Hitrovo, after a careful consideration of the facts, reaches the conclusion that Banks actually benefited their members during the decade in question to the amount of 22,000,000 roubles, or over £2,600,000, this having been mainly done by saving them from the necessity of borrowing from the usurers or selling their products at a disadvantage, furnishing them the means of getting on their feet again after unforeseen accidents or losses, and enabling them to improve their industrial processes and methods. Mr. Louguinine points out that these Banks possess

the inherent vitality necessary to a permanent existence. They have held their own since the year 1866, their number is still increasing, and they show no signs of approaching dissolution. A special study of the reports of 515 Banks yielded to this authority the following result: "12 per cent. of the total number were declining; 27 per cent. had passed through the vicissitudes of alternate progress and retrogression, while 61 per cent. showed a constant and regular advance." He is of opinion that of all forms of co-operation that of co-operative banking is the one which makes the smallest demands on the time and attention of the co-operators. Aside from convening once a year in general meeting to hear the annual report and elect officers, the majority of the associations leave the entire business in the hands of the directors. This is, no doubt, a prominent element in such success as they have achieved, since co-operators, whose total interests are very small, cannot be expected to devote a great deal of time to looking after them.

And the results of his researches and observations bring him to form a very sound conclusion, and he gives it as his conviction that the less such

institutions rely upon outside aid the better is their chance of success.

And now we must look around and see what has been done and is being done in poor decadent Spain. The Bank most worthy of notice in Spain as coming under the category of Co-operative Agricultural Banks is the Banco Agricola de la Provincia de Segovia, founded in 1882 by a bevy of landed proprietors anxious to assist the peasantry. It started with no special features, but evolved its methods as it gained its experience. Its methods we find in time developed on unusual lines, and it is doubtful whether they have been justified. For example, this Bank of Segovia lends for periods of even seven years, its deposits demandable at call. This feature is a leaf taken out of the book of Raiffeisen, but he secured his position by means of unlimited liability.

The following will give a clear notion of the working of this institution:—

“Mortgage loans are repayable either by authorization or in lump; any loan may be wholly or partly repaid in advance, 1 per cent. being added as commission, only first mortgages are allowed, unless the loan is to pay off former mort-

gages, the two operations being then simultaneous. Loans are granted up to 40 per cent. of the value, and full proof of title of freedom from charges of due payment of rent and taxes is required, together with a deposit of all costs of inquiry, including the fees to counsel for an examination of the title. In the case of incomplete or mere possessory title, two good sureties are required in addition. Loans 'de credito agricola,' that is, on crops (whether on the ground or in the barn), stock, etc., are granted for the agricultural year, which is held to begin and expire on the 24th August: apparently all such loans, whenever taken, must be settled up by that date. These are the loans for which the Bank is especially established. Proprietors requiring loans of this class must prove their ownership, and tenants their leases and the regularity of their payments of rental; both classes must provide two sureties. Every person, proprietor or tenant, who obtains a loan of this class becomes thereby a mere trustee, bailee or manager for the Bank of the property pledged (*se constituirá administrador y depositario de lo que hubiere ofrecido en garantía*), until complete repayment: if he fails (*si se hiciere insol-*

rente)—presumably wilfully—in this trust, he incurs penalties of the Penal Code, presumably for breach of trust, and an express entry to this effect is made in the document. Repayment may, by agreement, be made in kind.” It is pleasing to find that the Cash Credit System has found its way even into Spain. The Bank reserves its right to close such credits at any moment, and its mortgages only amount to about 2 per cent. of its assets. But its agricultural loans on personal credit are its special feature. By its Articles, these may be obtained for one year, and, to grant these long-term loans, the method of obtaining long-term capital by means of debentures is resorted to. The idea was to place funds with municipalities and communes as investments for their endowments. But in this it failed, though it held out the incentive of preferential loans to the denizens of communes who were at the same time investors in their debentures. Its funds are really chiefly derived from savings deposits to the amount in 1890 of £69,030, while its paid-up capital was only £14,620. The Bank, nevertheless, extended its loans on personal security to two years, and further granted permission to repay these loans

by five instalments of six months or one year each, beginning from the end of the two years; hence a maximum term of seven years, in which the borrower pays only interest for the first two years, and the debt itself with interest during the subsequent five years, a practice similar to that of the Bank of Naples, which, for certain mortgages, suspends amortization, for the first years—a concession eminently adapted to improvements—such as the digging of wells, planting of orchards, etc.

• In the view of the directors, these long-term loans are a real advantage to the Bank itself, as the returns are constantly flowing in, whereas short-term loans are demanded and repaid usually about the same time, such as seed-time and harvest, so that the Bank has its money idle for some months, and unduly in demand for others. The success of these long-term loans has, so far, been complete, but the Bank's ability to meet the demands of depositors depends evidently upon its credit merely, and this, again, on its sagacious and honourable management. That is the difficulty; the Bank is a success, but only in virtue of qualities not always available.

Its loans in eight years amounted to £546,300, no loan ordinarily exceeding £40, while a large number are much smaller, viz., £2, £4, or £8. Only about 2 per cent. of its loans are on mortgage, personal credit being the usual form granted. It is a remarkable fact that the Bank has not yet lost a farthing, nor has it been yet obliged to seek the aid of the Courts to recover its dues at échéance.

So much for these Spanish experiments. We will now enquire how People's Banks have flourished in quite a different country and among quite a different people, namely, in Austria. The statistics show a truly wonderful development. No less than 1,195 were registered in 1887, 651 being of "limited" and 544 of "unlimited" liability; in 1890 there were 1,489, of which 720 were limited; in 1902 the Schulze-Delitzsch numbered 2,227, of which 593 were limited and 1,634 unlimited. In addition there were 3,880 Raiffeisen societies with a membership of 385,405. In 1908 the numbers had grown to 9,316 societies, made up of 6,575 Raiffeisen societies and 2,140 limited and 540 unlimited liability organizations. The large number of "limited"



Banks is due to the fact that the law of 1873, though differing little from the German law of 1868, permits co-operative societies with a "limited" liability; evidently this provision is approved of in Austria. These had 513,756 members, which advanced during the year £25,061,000 with an own capital of £2,845,000, reserves of £1,108,000, and a borrowed capital in deposits, etc., of £22,408,800. The debts due to the Banks at the end of 1887 were £14,598,000 in short-terms paper, £340,000 in loans on pledge, and £7,936,600 in mortgages. It is probable that the figures as to capital, loans, etc., should be increased, as all Banks did not send in detailed accounts of money matters. But it is clear that they are very successful. Seeing that the sums advanced during the year only equalled the capital and deposits, it is evident that the loans are not for three months only; the large amount in mortgages, a mode of advance scarcely used by the German Banks of the strict system, also prove this. Evidently in transplanting the system it has been adapted to rural requirements.

In Hungary there were, in 1887, 488 Popular Banks, but the statistics are imperfect; in 1889

there were 576, of which 82 were of the Raiffeisen type. The deposits shown are far smaller than the own capital, and the loans outstanding only equal the amount of capital, exclusive of deposits. Most of the Banks are believed to be "limited."

Later information, which has to be garnered from all sorts of official returns, goes to show that there are over 4,000 societies which had advanced between them no less a sum of 500,000 crowns, secured mostly by personal guarantors. About one-half of these societies call themselves Raiffeisen Banks. There is no doubt that the Raiffeisen system has caught on precisely because the Schulze-Delitzsch societies, owing to poor administration, speculation, losses, high interest, made themselves unpopular, and at one time the Government sent two experts to the Rhine expressly to study the practical merits of the Raiffeisen system. Their report was so laudatory that these societies were at once taken into both official and popular favour, which is said to have endorsed the opinion that they form "the only" (?) "means known calculated to satisfy personal credit in a manner which could be approved." Apparently this wide asser-

tion refers only to credit for the peasantry. Backed by official and public favour, these societies are rapidly extending, and whereas in 1889 it was said that there were but few, there are now many; in Hungary they have, moreover, adopted the principle of liability "limited" to an amount which is usually a multiple—two, three or four times—of the share value; it appears that they are supported by a central lending Bank, about which no details are given. A point of interest, however, is that the provincial Government assists these societies in a small fashion, but one which proves sufficient—"a grant of 250 florins (about £19) is made to each association newly formed to defray its first expenses—purchase of office furniture, a safe, books, and so on. And in addition to this, a loan of 2,000 florins (about £150) is placed at the disposal of every association so formed, at the rate of 3 per cent. for not longer than two years, to provide it with the first working funds. That moderate advance appears to have been adequate, for the associations are everywhere showing signs of active life, multiplying and growing in strength." Thus subvention starts the societies; once in motion the difficulty seems to be over


Mr. Wolff shows in what manner People's Banks differ from those in other countries. The Schweizerische Volksbank, or "Swiss Popular Bank" of Berne—not the State Bank of that City—is a remarkable institution of *quassi* co-operative credit; each member is bound to subscribe one share now amounting to £40; this is payable by monthly instalments of one franc. In case of need, e.g., serious losses or liquidation, each member is bound to pay *in addition* an amount equal, not to the nominal amount of his share, but to the paid-up amount; it is urged that this arrangement is just to the poorer or recently-joined members. It does business with outsiders as well as with members, but accords the latter favourable rates of interest on deposits and on loans. It started in 1869 with 53 members and £105 capital; in 1889 it had 5,297 members with a large paid-up capital, savings deposits from members of £88,656, from non-members £279,496, and ordinary deposits of £179,332; out of the 5,297 members only 279 were agriculturists. These are M. Durand's figures, but those for 1909 show an immense increase in capital and members; agriculture is, however, but slightly represented. The membership had grown to

48,133; the share capital to nearly £2,250,000, of which £1,876,240 had been paid up. The reserve fund amounted to £332,000. An important mode of raising funds is the Bank's bonds (*Kassenscheine*), which are long-term bonds running for two years at  $3\frac{1}{2}$  or  $3\frac{3}{4}$  per cent., or for five years at 4 per cent., and requiring from the holder three months' notice of redemption immediately preceding the expiry of the bond, failing which the bond runs for a further term of the same period as the original. There were bonds of this sort out at the end of 1908 for about £6,600,000.

The Bank is exceedingly popular for its cash credit system, but it evinces great caution and prudence in this portion of its administrative operations. During 1909, however, it granted cash credits to the extent of £6,746,100; discounted bills to the amount of a further £11,508,074, and advanced on other securities some £1,954,361. For the same period its current account balance reached the total of £2,014,422; its "savings" balance to nearly £3,000,000, and its ordinary deposit balance to £114,352. These figures provide the best comment as to the Bank's safety.

## CHAPTER VII.

## THE BRITISH MOVEMENT.

HE difficulty of introducing People's Banks into the United Kingdom has been very great. But the magnitude of the difficulty is easily explained. The majority of those who attempted it aimed too much at an imitation of the Continental systems, forgetting that all the various precautions and devices attendant upon these were in no way necessary on these shores. Moreover, those who have tried to formulate schemes have done so without taking into account the different circumstances and conditions prevailing in this country to those abroad. Then again the "philanthropic element has been imported into these little undertakings, their promoters forgetting that philanthropy and business cannot proceed hand in hand. Had the best and most suitable features of the Continental systems been engrafted upon all that is best, rational and possible in our own, rapid and highly encouraging results might have accrued. But the whole fell more or less into the hands of amateurs, and the

consequence has been that the outcome of all these sincere but misguided efforts is petty in the extreme, and the little societies started are amateur to a degree.

It was a noble opportunity, had it been taken, and experts from all departments called in. Then the best that is in the Schulze-Delitzsch and the Raiffeisen systems might have been added to the splendid features of the old Scotch and the *banquier* systems, and the world would have been given a practical lesson whose fruitful consequences it would not be easy to exaggerate. We admit that though truth would have been on their side, it would have been no easy task. But their only enemy would have been unfounded prejudice which, with the artillery of knowledge ready to their hand, they could, by dint of hard fighting and well-disposed forces, soon have dispersed. The times of stress, then and now, among the working classes would have proved their allies and helped their campaign. The very fact that they could have proved beyond denial that our Bank Monopoly, with its array of capital-collecting Deposit Banks was at the head and front of the offending in the creation and main-

tenance of multitudes of usurers, sweaters, middlemen and gombecenmen, has the power by manipulations of the Bank Rate to hamper, and even, in many cases, to ruin whole sections of trade and industry, and to act generally as an artificial mechanism for the destruction of prosperity—all these facts, and more, would have supplied these men with an irresistible strength that would have carried all before it. They could moreover have put forward as a plea for the construction of People's Banks on the combined methods indicated, that such healthy and rational institutions would root out the afore-named evils, would foster thrift and a higher moral sense among the workers, would confer upon them a clearer apprehension of the true meanings of individual rights and civic duties; would transform the futile consumer into the fruitful producer, would serve to lessen, even to banish, that worship of pinchbeck authority which has been and is the curse of so many people, depriving them of the power of thinking for themselves, and reducing them to the victims of the misleaders of this world; would widen immensely the area of commerce and industry, and thus diminish the



ranks of the unemployed and underpaid; and, by the transplantation of these People's Banks beyond the seas to India, South Africa and other Colonies and Dependencies, would expand the working and profit-making activities of all good workers, and thus lead to a sound and practical rather than a sentimental consolidation of the Empire. But the philanthropic motive and the charitable intent have been permitted to prevail, and the small and slow progress achieved may be taken as the measure of what we cannot resist calling a mistaken policy. Had the well-meaning and sincere promoters of the variety of urban and agricultural organizations, both in England and Ireland, placed each of these centres of activity and their creation upon a commercial basis, we hold that these would have increased and multiplied by leaps and bounds. But the reports, the pamphlets, the leaflets, the addresses, the correspondence on the subject of these societies abound in the iteration of phrases such as "supported by voluntary contributions," "no profits," and a hundred charity-tainted epithets and allusions. In England, truly, little has been done in relation to the output of effort and

influence. But in Ireland we find that, despite the same philanthropic features, much greater progress has been made in the matter of numbers of these societies. We find that while in England only a few Credit Societies have been founded, in Ireland they have of late years organized themselves to the extent of some hundreds, and recent political developments have provided an effective stimulus.

Thus it is evident that the Continental system cannot be successfully applied in its entirety in our own country, and those who started Credit Banks on the Raiffeisen system were foredoomed to failure. It has been something like the case of Lord Winchilsea, who founded the National Agricultural Union, the success of which depended upon the co-operation of the landlord, the farmer, and the agricultural labourer. This was a great idea, but it was not fully taken into account that each of the three parties looked at the matter from his own particular point of view. The landlord wanted the highest possible rent for his land, the farmer wanted to pay the smallest possible rent, and the agricultural labourer wanted the highest wage, while the farmer wanted to give the smallest

wage. Lord Winchilsea thought it possible to transform these three men into brethren, but experience has proved that such an alliance can only be brought about in the time of the millennium or when our economic conditions are flawless. It was much the same with these Agricultural Credit Societies. Their operations were confined to the village in which the Society or Banks were situated. Consequently, on the founding of the Society, the landlord, the farmer and the labourer were invited to co-operate, and the three viewed each other with the suspicion which is characteristic of a restricted locality. Under the Raiffeisen system all the members of the Bank joined in guaranteeing losses in accordance with the principle of unlimited liability. The Companies Acts of 1862 and 1900 were specially passed by the Government to limit the liabilities of shareholders in view of the terrible evils inflicted by the old system, and here we have a new organization professing to appeal to the thrifty classes of the community actually re-introducing the discredited method. As a rule men object to pay other people's debts, and especially when those debts are an unknown quantity, but in these

Credit Banks the whole of the borrowing members, who are obviously poor people, are compelled to pledge themselves to meet any failures which may arise. Then, too, the British agriculturist is too conservative to allow his fellow villagers to know anything about his financial position, his monetary needs or even of his successes, and, as my experience proves, the needy farmer would rather go to an outside usurer and submit to extortion than let his neighbours know that he is in need. Then, too, in these small societies the spirit of patronage is manifest. The squire and the parson play their inevitable part in this matter, and in the end it savours more of charity than of justice, and takes away the backbone and the spirit of initiative and manhood which should characterise the British yeoman.

Again, the English and Irish societies are seeking State aid, which, although it may temporarily bolster up the societies financially, is bound to undermine their influence in usefulness and lead to red-tape and State restrictions. Any genuine People's Banking movement should be entirely free from State control. In a word, the English and Irish movement seem to be going

back to the old German formalities which so troubled the originators of this movement.

There are other minor defects in connection with his home movement; the slowness of the progress, as we have seen, especially in England, shows that the English people do not take to it, but the great defect lies obviously in the impression of charity and philanthropy which the promoters wish to impose upon them and obtain personal credit for. The English people, happily, have always resented the mixing up of philanthropy with business, showing a wise judgment in this respect.

Of late years a newer spirit has pervaded our efforts in England, but much is wanting still. What private enterprise in Banking should have realised long since is now being realised by the State. Co-operation in industry is being followed by facilities for co-operation in Banking. The democratisation of commerce is finding its natural corollary in the democratisation of Credit. The old idea of private patronage or State control in organising the essential and ineradicable credit due to Labour-force is passing away, and there is no more hopeful sign for the sociological student

than that where legislation is proposed the State itself agrees that it shall only remove restrictions and shall leave co-operation full and fair play through existing agencies. Even Earl Carrington, in his proposed new measure, recognises that the Village Credit Societies must be left free to work out their own economic salvation, and must not be taught to lean upon the prop of State finance. The to-be-formed new Village Credit Societies are to rely upon their own efforts, and must be prepared to satisfy the conditions which the Joint Stock Banks in their locality may impose. They will survive or they will succumb just according to the measure of their own virility and sturdy independence. It is, of course, to be hoped that the Joint Stock Banks will not at the outset fetter and enmesh the new societies by ancient red-tape and hoary tradition. If there is a frank disposition to welcome the new societies by the Banks, as feeders for thrifty husbandry and intelligent labour applied to the land, then the revival of agricultural industries will really set in. We shall indeed commence at last to colonise our own land.

Of other efforts to provide here and now in our own midst the Banking facilities which have been so long and successfully available abroad it is a little difficult for me to write. I cannot, for example, without laying myself open to the charge of egotism, describe my own exertions to establish a real People's Bank in England. Doubtless that experiment with which for the past eight years I have been identified will one day find its own historian. It is sufficient for my purpose now to record the fact that, scouted as was the idea by all save the few, that hostile as were the critics in conservative Banking and other financial circles, it has won its way to a triumphant success; and I am proud that I have been privileged to place in the hands of my countrymen a weapon wherewith the evils of usury, thriftlessness, want, squalor and poverty may now be slain.

*FINIS.*







